

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: G. ANANTHARAMAN, WHOLE TIME MEMBER

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 WOODSTOCK SECURITIES PVT.LTD, OMEGA EQUITIES PVT. LTD. (MEMBERS, BOMBAY STOCK EXCHANGE LIMITED) AND WOODSTOCK BROKING PVT. LTD. MEMBER, NATIONAL STOCK EXCHANGE OF INDIA LTD. IN RESPECT OF THEIR DEALINGS IN THE SHARES OF DSQ SOFTWARE LTD.

WTM/GA/15/ISD/6/07

Date of Hearing: September 14, 2006

Appearances:

For noticees: Shri Gaurav Banerjee, Sr. Advocate.

For Securities and Exchange Board of India: Shri. B Rajendran, Dy. General Manager,
Shri A. Mithwani, Asst. General Manager
Shri Vijayakrishnan. G, Asst. Legal Advisor.

1.0 BACKGROUND

- 1.1 The shares of DSQ Software Ltd. (hereinafter referred to as the company), formerly known as Square D Software Ltd., are inter alia listed at the National Stock Exchange of India Ltd. (hereinafter referred to as NSE) and Bombay Stock Exchange Ltd. (hereinafter referred to as BSE). The company was originally incorporated on March 6, 1992 as M/s. Square D Software Limited with its registered office at Kolkata. Thereafter, the registered office of the company was shifted from Kolkata to Chennai with effect from August 16, 1994. The name of the company was subsequently changed from M/s. Square D Software Limited to M/s. DSQ Software Limited with effect from April 01, 1997.
- 1.2 There was an unusual movement in the share price of the company and the same increased from Rs.255/- to Rs.2631/- during October 1, 1999 and March 31, 2000. Subsequently, the share price plummeted to Rs. 149/- on March 31, 2001 from Rs. 1499/- on April 1, 2000. The said price movements were also accompanied by large volumes (at times, the daily average volume reached 10, 00,000 shares) at BSE and NSE.
- 1.3 In the facts and circumstances, based upon prima facie findings, Securities and Exchange Board of India (hereinafter referred to as SEBI) vide an interim order dated July 20, 2001 inter alia prohibited the company and its promoter viz. Shri Dinesh Dalmia from accessing capital market for a period of one year or completion of investigation and action thereupon whichever is later. The said interim order was

confirmed by SEBI, vide order dated December 20, 2001 after giving reasonable opportunity of hearing.

1.4 The investigation conducted by SEBI inter alia found that Shri Dinesh Dalmia had fraudulently allotted 1.7 crore shares of the company to its group / associate entities. Out of the above, around 1.3 crore shares of the company were off loaded in the securities market by the group / associate entities of Shri Dinesh Dalmia viz. Hulda Properties and Trades Ltd., Powerflow Holdings Ltd., DSQ Holdings Ltd. and DSQ Industries Ltd. etc. before the listing of the said shares. The market value of the said 1.3 crore shares of the company was found to be around Rs.630 crores, calculated by taking into account the average price of the shares of the company at the relevant time. Thus, the promoters/ directors of the company generated funds by trading in the shares of the company through their associates. The above mentioned associates of Shri Dinesh Dalmia sold large quantities of the shares of the company through a set of stock brokers at NSE and BSE and the said shares were bought back by the said associates at the same time through different set of stock brokers inter alia by way of synchronized trades. It is further seen that the stock brokers through which the aforesaid sales were done, made payment to the sellers (associates of the company) even before they received the pay out from the clearing corporation, and that to cover the same, the rate of brokerage was adjusted to the time of payment.

1.5 In view of the above findings of investigation, SEBI vide order dated September 9, 2004 inter alia prohibited the company and Shri Dinesh Dalmia from buying, selling or otherwise dealing in securities in any manner, directly or indirectly, for a period of 10 years. Shri Dinesh

Dalmia was further prohibited from holding any office of responsibility in a company/entity or other institution associated with the securities market for a period of 10 years. In the said order, SEBI had also passed the following directions:

- (i) “Shri Dinesh Dalmia and DSQ Software Ltd shall deposit a sum of Rs.630 crore (being the value of Rs.1.30 crore shares calculated by taking into account the average price of the scrip in the relevant settlement) within a period of 45 days in a separate escrow account to be maintained with a nationalized bank, till completion of investigation by various Police agencies including The Calcutta Police and Central Bureau of Investigation.
- (ii) Shri Dinesh Dalmia shall buy 1.30 crore shares of DSQ Software Ltd, circulated into the secondary market within a period of 45 days and retain the same in a separate demat account to be opened for the purpose, till permission for reduction in capital is obtained by the company from the competent authority.
- (iii) The amounts deposited in the escrow account and shares retained in the demat account shall not be withdrawn without prior permission in writing from SEBI”.

1.6 The aforesaid order dated September 9, 2004 was challenged by the company and Shri Dinesh Dalmia before the Hon'ble Securities Appellate Tribunal (SAT). Vide order dated December 8, 2005, SAT

upheld the aforesaid SEBI order inter alia with the following modification:

“The period of debarment shall be from the date when the interim order was passed by SEBI on 27.1.2001 and will run for a period of 10 years from that date and the order to that extent also is modified”.

1.7 SAT, in the said order, has inter alia observed “I find that by its actions as outlined above, the company has acted in a fraudulent manner”. “.....unlisted shares were sold to the unsuspecting investors way back in 2000-01 at a price of several hundred rupees for each share”.

1.8 The investigation conducted by SEBI inter alia found that the associates of Shri Dinesh Dalmia viz. Hulda Properties and Trades Ltd., Powerflow Holdings Ltd., DSQ Holdings Ltd. traded heavily in the shares of the company among themselves and thereby created volumes by executing synchronized trades, circular trades etc. The details of the trades of the above entities through some of the major brokers in the shares of the company during the period October 1999 - March 31, 2001 { at NSE, BSE and Calcutta Stock Exchange Association Ltd. (CSE) } are mentioned below :

A. Hulda Properties and Trades Ltd.

Exchange	Period (October 1999 - March 2001)		
	Purchases (shares)	Sales (shares)	Net (shares)
BSE	14536000	14777376	-241376
NSE	18639043	20154719	-1375876
CSE	13234017	11063876	2170141
Total	46409060	45995971	552889

B) Powerflow Holdings Ltd.

Exchange	Period (October 1999 - March 2001)		
	Purchases (shares)	Sales (shares)	Net (shares)
BSE	3722500	3547500	175000
NSE	3855500	4085500	-230000
CSE	612000	862000	-250000
Total	8190000	8495000	-305000

C) DSQ Holdings Ltd.

Exchange	Period (October 1999 - March 2001)		
	Purchases (shares)	Sales (shares)	Net (shares)
BSE	3629037	5449037	-1820000
NSE	872360	7134560	-6262200
CSE	1602900	161000	1441900
Total	6104297	12744597	-6640300

D) DSQ Industries Ltd.

Exchange	Period (October 1999 - March 2001)		
	Purchases (shares)	Sales (shares)	Net (shares)
NSE	155200	500000	-344800

Thus, all the above four entities bought 6.09 crore shares and sold 6.77 crore shares of the company during the above period.

- 1.9 It is seen from the above, that the trades of the above entities contributed substantial volumes in the shares of the company at NSE, BSE and CSE, during October 1999 and March 2001. The said trades (including the synchronized trades) were executed through the stock brokers viz. Dresdner Kleinwort Benson Securities Ltd (DKB), Prabhudas Liladhar Pvt. Ltd., Woodstock Securities Pvt. Ltd.

Woodstock Broking Pvt. Ltd. Omega Equities Pvt. Ltd., Mittal Securities Pvt. Ltd., Millennium Equities Pvt. Ltd. etc.

- 1.10 SEBI observed that one Shri Suresh Jajoo was the promoter/common director of Woodstock Securities Pvt. Ltd., Woodstock Broking Pvt. Ltd., Omega Equities Pvt. Ltd., Millennium Equities Pvt. Ltd. and Herald Equities P. Ltd. SEBI also found that Shri Suresh Jajoo and his wife Smt. Vimala Jajoo were holding 99.98% in Woodstock Securities Pvt. Ltd and 99.63% in Omega Equities Pvt. Ltd during the relevant period. Shri Suresh Jajoo was also individually holding more than 80% in Woodstock Broking Pvt. Ltd. and along with Woodstock Securities Pvt. Ltd and Woodstock Broking Pvt. Ltd. he was holding 99.95% in Millennium Equities Pvt. Ltd. Thus, Woodstock Securities Pvt. Ltd. Woodstock Broking Pvt. Ltd. Omega Equities Pvt. Ltd., Millennium Equities Pvt. Ltd.(hereinafter referred to as Jajoo group) are in effect controlled and managed by Shri Suresh Jajoo. Shri Suresh Jajoo had also given statement to SEBI Investigating Officer on July 08, 2002 and July 09, 2002 in his capacity as the promoter/director of the aforesaid stock brokers.
- 1.11 It was found from the pattern of the trades that one of the associate entities of Shri Dinesh Dalmia was buying and selling the shares of the company through synchronized trades with other associate entities while other associate entities did an encore in their term. By entering into such synchronized deals, effectively there was no change in beneficial ownership and there was creation of artificial market. Thus, it was inter alia found that the aforesaid associate entities of Shri. Dinesh Dalmia viz. Hulda Properties and Trades Ltd., Powerflow

Holdings Ltd., DSQ Holdings Ltd. indulged in synchronized transactions which prima facie defeated the transparency of the trading mechanism of stock exchanges. The trades executed by Woodstock Securities Pvt. Ltd., Woodstock Broking Pvt. Ltd. Omega Equities Pvt. Ltd. and Millennium Equities Pvt. Ltd. for Hulda during the period October 1999- March 2001 are given below :

Exchange	Broker	Name of the client	Gross Purchase	Gross Sales	Net Qty
BSE	Millennium Equities Pvt. Ltd.*	Hulda	3001775	2666775	335000
BSE	Woodstock Securities Pvt. Ltd	Hulda	6817895	6256807	561088
NSE	Woodstock Broking Pvt. Ltd.	Hulda	14560193	14364080	196113
BSE	Omega Equities Pvt. Ltd.	Hulda	2541330	2427794	113536
NSE	Woodstock Broking Pvt. Ltd.	DSQ Industries	155200	200000	-44800
			27076393	25915456	1160937

* The certificate of registration of the stock broker was suspended for a period of six months by SEBI vide order dated September 13, 2004. The said order was set aside by SAT vide order dated November 29, 2006 in the appeal filed by the said stock broker and the Hon'ble Supreme Court of India has admitted the appeal filed by SEBI against the said order of SAT and the same is pending.

It may seen from the above table that aforesaid stock brokers bought 2.70 crore shares and sold 2.59 crore shares for the associates of Shri Dinesh Dalmia for the above said period (i.e. 44.5% buy transactions and 38% sell transactions of the said associates).

- 1.12 In the facts and circumstances, SEBI vide order dated October 4, 2004 inter alia prohibited DSQ Holdings Ltd, Hulda Properties & Trades Ltd., Powerflow Holdings Pvt. Ltd, DSQ Industries Ltd from accessing the securities market and dealing in securities for a period of 10 years. In the said order it was observed:

“ I also find that DSQ Holdings Ltd, Hulda Properties & Trades Ltd., Powerflow Holdings Pvt. Ltd and DSQ Industries Ltd have indulged in synchronized transactions that seek to defeat the transparency of the trading mechanism of stock exchanges.....”.

“ I find that the DSQ Holdings Ltd, Hulda Properties & Trades Ltd., Powerflow Holdings Pvt. Ltd, DSQ Industries Ltd and Mrs. Radha Dalmia have acted to the detriment of investors and the safety and credibility of the securities market. They have indulged in activities that are fraudulent and unfair and manipulative.”

“ the associated entities had entered into synchronized and circular deals wherein the buy order and sell orders were inputted in the trading system at the same time for same rate and same quantity. While one of the associated entities was selling, other entities were buying shares. By entering into such synchronized deals, they have facilitated trades where effectively there was no change in beneficial ownership and there was creation of artificial market”.

1.13 SEBI had also cancelled the certificate of registration of DKB in respect of its irregular trades in the shares of the company, vide order dated April 26, 2007.

1.14 Further, the investigation conducted by SEBI inter alia observed that the stock brokers viz. Woodstock Securities Pvt. Ltd. Woodstock Broking Pvt. Ltd. Omega Equities Pvt. Ltd executed substantial trades in the shares of the company during October 1999 to March 2001 for Hulda Properties and Trades Ltd./ Shri. Suresh Jajoo/ Panther Fincap & Management Services Ltd. (an entity controlled by Shri Ketan Parekh). Hulda Properties and Trades Ltd. is hereinafter referred to as Hulda for the sake of brevity.

1.15 The trade details of the aforesaid stock brokers in the shares of the company are as follows:

A. Woodstock Securities Pvt. Ltd.

The broker had purchased 68, 17,895 shares and sold 62, 56,807 shares of the company. In the process, it had inter alia executed synchronized trades in the said shares for its clients Hulda and Shri Suresh Jajoo, Director of the broker for the period December 1999 to June 2000. The Synchronized trade details of the stock broker in the shares of the company (the counter party broker being DKB) are given below:

Trade Date	Buy Order No	Buy Order Time	Buy Order Rate	Buy Order Qty	Trade Time	Buying Client	Sell Member	Sell No.	Order	Sell Time	Sell Price	Sell Qty	Selling Client
23-Dec-99	753010044	10:03:15	826.50	50000	10:03:16	Hulda	DKB	276020254		10:03:16	826.5	50000	Hulda
23-Dec-99	753010045	10:04:17	832.00	25000	10:04:17	Hulda	DKB	276020255		10:04:17	832	25000	Hulda
27-Dec-99	753010012	10:50:40	888.00	25000	10:50:40	Hulda	DKB	276020006		10:50:37	888	25000	Hulda
27-Dec-99	753010013	10:51:10	888.50	25000	10:51:10	Hulda	DKB	276020007		10:51:10	888.5	25000	Hulda
28-Dec-99	753010017	10:13:52	869.00	50000	10:13:52	Hulda	DKB	276020017		10:13:52	869.00	50000	Hulda
28-Dec-99	753010018	10:23:58	868.50	50000	10:23:58	Hulda	DKB	276020018		10:23:58	868.50	50000	Hulda
05-Jan-00	753010071	10:32:45	955.00	25000	10:32:46	Hulda	DKB	276020318		10:32:45	955	25000	Hulda
25-Jan-00	753010031	10:18:45	1162.00	10000	10:18:45	Hulda	DKB	276020132		10:18:45	1162	10000	Hulda
15-Feb-00	753010038	11:14:07	1529.00	50000	11:14:07	Hulda	DKB	276020307		11:14:07	1529	50000	Hulda
15-Feb-00	753010039	11:14:26	1529.00	50000	11:14:27	Hulda	DKB	276020308		11:14:27	1529	50000	Hulda
22-Feb-00	753010025	11:40:32	2000.00	35000	11:40:34	Hulda	DKB	276020071		11:40:33	2000	35000	Hulda
23-Feb-00	753010042	10:21:46	2198.00	20000	10:21:47	Hulda	DKB	276020124		10:21:46	2198	20000	Hulda

Trade Date	Buy Order No	Buy Order Time	Buy Order Rate	Buy Order Qty	Trade Time	Buying Client	Sell Member	Sell No.	Order	Sell Time	Sell Price	Sell Qty	Selling Client
23-Feb-00	753010045	10:26:41	2205.00	25000	10:26:42	Hulda	DKB	276020126		10:26:41	2205	25000	Hulda
24-Feb-00	753010060	11:33:46	2112.00	25000	11:33:46	Hulda	DKB	276020252		11:33:45	2112	25000	Hulda
29-Feb-00	753010020	11:41:12	1768.00	22000	11:41:13	Hulda	DKB	276020239		11:41:12	1768	22000	Hulda
08-Mar-00	753010069	13:46:08	2492.00	25000	13:46:09	Hulda	DKB	276020245		13:46:08	2492	25000	DSQ H*
08-Mar-00	753010070	13:46:51	2485.00	25000	13:46:52	Hulda	DKB	276020247		13:46:52	2485	25000	DSQ H
08-Mar-00	753010071	13:47:22	2486.00	10000	13:47:22	Hulda	DKB	276020248		13:47:22	2486	10000	DSQ H
08-Mar-00	753010072	13:48:07	2493.00	15000	13:48:08	Hulda	DKB	276020250		13:48:07	2493	15000	DSQ H
09-Mar-00	753010080	10:05:35	2582.00	25000	10:05:35	Hulda	DKB	276020283		10:05:32	2582	25000	DSQ H
13-Mar-00	753010005	10:44:05	2686.00	17500	10:44:06	Hulda	DKB	276020084		10:44:06	2686	17500	DSQ H
26-Apr-00	753010023	10:26:14	994.85	30000	10:26:14	Hulda	DKB	276020319		10:26:13	994.85	30000	DSQ H
02-Jun-00	7530010000 0000166	10:37:19	862.25	49000	10:37:20	JAJOO SURE SH	DKB	2760030000 0000161		10:37:20	862.25	50000	DSQ H
02-Jun-00	7530010000 0000167	10:39:06	857.00	50000	10:39:06	JAJOO SURE SH & SEPPRA	DKB	2760030000 0000163		10:39:06	857	50000	DSQ H
02-Jun-00	7530010000 0000168	10:46:23	854.00	23035	10:46:27	Hulda &SUR ESH	DKB	2760030000 0000166		10:46:27	854	23035	DSQ H
14-Jun-00	7530010000 0000360	13:33:34	927.50	50000	13:33:35	Hulda	DKB	2760020000 0005169		13:33:34	927.50	50000	Hulda

*DSQH; DSQ holdings Ltd.

B) Woodstock Broking Pvt. Ltd.

The broker executed substantial trades in the shares of the company for Hulda during October 1999 to March 2001. It had purchased 14560193 shares and sold 14364080 shares of the company on behalf of its clients. The said stock broker had inter alia executed synchronized trades in the said shares of the company for its clients viz. Hulda, Shri Suresh Jajoo, Director of the broker and Panther Fincap & Management Services Ltd. during October 1999 to November 2000. The Synchronized trade details of the aforesaid stock broker in the shares of the company are given below:

i) With the counter party broker, DKB (on the sale side)

Trade date	Buy order number	Buy Time	Buy Price	Buy Qty	Trade time	Buying member	Buying Client	Selling Member	Sell Order No.	Sell Order Time	Sell Order Price	Sell Order Qty	Sell Client
02-Feb-00	200002020357086	11:51:26 AM	1438.50	25000	11:51:27	WSB*	Hulda	DKB	200002020357088	11:51:27 AM	1438.50	25000	DSQ I.
02-Feb-00	200002020357741	11:51:45 AM	1438.25	25000	11:51:46	WSB	Hulda	DKB	200002020357770	11:51:46 AM	1430.00	25000	DSQ I.
03-Feb-00	200002030238074	11:03:15 AM	1383.50	25000	11:03:16	WSB	Hulda	DKB	200002030238089	11:03:16 AM	1383.50	25000	DSQ I.
03-Feb-00	200002030238863	11:03:31 AM	1383.50	25000	11:03:31	WSB	Hulda	DKB	200002030238858	11:03:31 AM	1383.50	25000	DSQ I.
03-Feb-00	200002030240051	11:03:57 AM	1381.00	25000	11:03:57	WSB	Hulda	DKB	200002030239975	11:03:55 AM	1381.00	25000	DSQ I.
03-Feb-00	200002030241107	11:04:19 AM	1381.50	25000	11:04:19	WSB	Hulda	DKB	200002030241120	11:04:19 AM	1381.50	25000	DSQ I.
03-Feb-00	200002030367444	11:58:03 AM	1382.00	25000	11:58:05	WSB	Hulda	DKB	200002030367521	11:58:05 AM	1382.00	25000	DSQ I.
03-Feb-00	200002030368155	11:58:21 AM	1382.00	25000	11:58:22	WSB	Hulda	DKB	200002030368181	11:58:22 AM	1382.00	25000	DSQ I.
03-Feb-00	200002030393832	12:11:57 PM	1382.50	25000	12:11:57	WSB	Hulda	DKB	200002030393757	12:11:55 PM	1382.50	25000	DSQ I.
03-Feb-00	200002030394655	12:12:19 PM	1382.00	25000	12:12:20	WSB	Hulda	DKB	200002030394676	12:12:20 PM	1382.00	25000	DSQ I.
17-Feb-00	200002170305188	11:34:00 AM	1679.00	25000	11:34:00	WSB	Hulda	DKB	200002170305191	11:34:00 AM	1679.00	25000	Hulda
17-Feb-00	200002170306210	11:34:26 AM	1687.00	25000	11:34:28	WSB	Hulda	DKB	200002170306290	11:34:28 AM	1687.00	25000	Hulda
17-Feb-00	200002170309099	11:35:44 AM	1685.00	25000	11:35:44	WSB	Hulda	DKB	200002170309105	11:35:44 AM	1685.00	25000	Hulda
17-Feb-00	200002170309709	11:36:01 AM	1687.50	25000	11:36:01	WSB	Hulda	DKB	200002170309693	11:36:01 AM	1687.50	25000	Hulda
23-Feb-00	200002230071408	10:18:14 AM	2210.00	25000	10:18:19	WSB	Hulda	DKB	200002230071772	10:18:19 AM	2210.00	25000	Hulda
23-Feb-00	200002230073411	10:18:41 AM	2212.00	25000	10:18:41	WSB	Hulda	DKB	200002230073372	10:18:40 AM	2212.00	25000	Hulda
09-Mar-00	200003090059636	10:09:32 AM	2583.00	25000	10:09:32	WSB	Hulda	DKB	200003090059627	10:09:32 AM	2583.00	25000	DSQ H
09-Mar-00	200003090062235	10:10:12 AM	2595.00	25000	10:10:12	WSB	Hulda	DKB	200003090062147	10:10:11 AM	2595.00	25000	DSQ H
02-Jun-00	200006020202008	10:41:52 AM	859.75	25000	10:41:52	WSB	Suresh Jajoo	DKB	200006020201900	10:41:50 AM	859.75	25000	DSQ H
02-Jun-00	200006020203468	10:42:16 AM	859.75	25000	10:42:16	WSB	Suresh Jajoo	DKB	200006020203483	10:42:16 AM	859.75	25000	DSQ H
02-Jun-00	200006020205359	10:42:45 AM	858.75	25000	10:42:45	WSB	Suresh Jajoo	DKB	200006020205307	10:42:44 AM	858.75	25000	DSQ H
02-Jun-00	200006020207894	10:43:29 AM	858.50	25000	10:43:29	WSB	Suresh Jajoo	DKB	200006020207845	10:43:28 AM	858.50	25000	DSQ H
02-Jun-00	200006020209170	10:43:53 AM	858.05	25000	10:43:53	WSB	Suresh Jajoo	DKB	200006020209118	10:43:52 AM	858.05	25000	DSQ H
02-Jun-00	200006020210456	10:44:18 AM	858.05	25000	10:44:18	WSB	Suresh Jajoo	DKB	200006020210427	10:44:18 AM	858.05	25000	DSQ H
02-Jun-00	200006020211570	10:44:41 AM	857.15	25000	10:44:41	WSB	Suresh Jajoo	DKB	200006020211575	10:44:41 AM	857.15	25000	DSQ H
02-Jun-00	200006020213091	10:45:09 AM	856.15	25000	10:45:09	WSB	Suresh Jajoo	DKB	200006020212987	10:45:07 AM	856.15	25000	DSQ H
14-Jun-00	200006140635034	1:31:51 PM	929.00	25000	13:31:51	WSB	Hulda	DKB	200006140635009	1:31:50 PM	929.00	25000	Hulda
14-Jun-00	200006140635493	1:32:10 PM	929.50	25000	13:32:10	WSB	Hulda	DKB	200006140635480	1:32:10 PM	929.50	25000	Hulda
14-Jun-00	200006140635493	1:32:10 PM	929.50	25000	13:32:27	WSB	Hulda	DKB	200006140635888	1:32:27 PM	929.50	25000	Hulda

Trade date	Buy order number	Buy Time	Buy Price	Buy Qty	Trade time	Buying member	Buying Client	Selling Member	Sell Order No.	Sell Order Time	Sell Order Price	Sell Order Qty	Sell Client
14-Jun-00	200006140635912	1:32:27 PM	929.50	25000	13:32:27	WSB	Hulda	DKB	200006140635888	1:32:27 PM	929.50	25000	Hulda
14-Jun-00	200006140636248	1:32:41 PM	929.50	25000	13:32:43	WSB	Hulda	DKB	200006140636289	1:32:43 PM	929.50	25000	Hulda
14-Jun-00	200006140635034	1:31:51 PM	929.00	25000	13:32:59	WSB	Hulda	DKB	200006140636289	1:32:43 PM	929.50	25000	Hulda
01-Nov-00	200011010080402	10:05:06 AM	385.50	50000	10:05:06	WSB	Panther Fincap	DKB	200011010080338	10:05:05 AM	385.50	50000	DSQ H
01-Nov-00	200011010081802	10:05:18 AM	384.50	50000	10:05:18	WSB	Panther Fincap	DKB	200011010081803	10:05:18 AM	384.50	50000	DSQ H
01-Nov-00	200011010084377	10:05:42 AM	384.00	25000	10:05:42	WSB	Panther Fincap	DKB	200011010084414	10:05:42 AM	384.00	25000	DSQ H

*DSQI: DSQ Industries Ltd.

DSQH: DSQ Holdings Ltd.

ii) With the counter party broker Prabhudas Liladhar Pvt. Ltd. (PL) (on the sale side)

Trade date	Trade time	Trade Qty.	Buy TM name	Buy Order No.	Buy order time	Buy order qty.	Buy order price	Buy Client	Sell TM Name	Sell Order No.	Sell order time	Sell order qty.	Sell order price	Sell Client
1-Dec-99	10:07:48	36000	WSB	199912010039392	10:07:47	36000	458.00	Hulda	PL	199912010039497	10:07:48	36000	458.00	DSQ H
1-Dec-99	14:15:27	14000	WSB	199912010613184	14:15:26	14000	461.25	Hulda	PL	199912010613219	14:15:27	14000	461.25	DSQ H
10-Dec-99	11:02:59	24882	WSB	199912100200480	11:02:59	25000	630.50	Hulda	PL	199912100200470	11:02:59	25000	630.50	DSQ H
13-Dec-99	11:47:39	25000	WSB	199912130219750	11:47:38	25000	626.25	Hulda	PL	199912130219769	11:47:39	25000	626.25	DSQ H
13-Dec-99	11:47:53	25000	WSB	199912130220265	11:47:53	25000	626.25	Hulda	PL	199912130220271	11:47:53	25000	626.25	DSQ H
13-Dec-99	11:48:18	25000	WSB	199912130221146	11:48:18	25000	627.25	Hulda	PL	199912130221125	11:48:17	25000	627.25	DSQ H
13-Dec-99	11:48:39	15000	WSB	199912130221909	11:48:39	15000	626.50	Hulda	PL	199912130221884	11:48:39	15000	626.50	DSQ H
1-Mar-00	14:35:16	2622	WSB	200003010590951	14:32:37	20000	1781.90	Hulda	PL	200003010594412	14:35:16	20000	1781.90	DSQ H
1-Mar-00	14:35:27	14378	WSB	200003010590951	14:32:37	20000	1781.90	Hulda	PL	200003010594655	14:35:27	20000	1781.90	DSQ H

*WSB- Woodstock Broking Pvt. Ltd.

C) Omega Equities Pvt. Ltd.

The aforesaid stock broker executed substantial trades in the shares of the company for Hulda during October 1999 to March 2001. It had

purchased 2541330 shares and sold 2427794 shares of the company respectively on behalf of its clients. The said stock broker executed synchronized trades in the shares of the company for its client Hulda and Shri. Suresh Jajoo. The synchronized trade details of the stock broker in the shares of the company are given below:

Trade Date	Buy Order Number	Buy Time	Buy Price	Buy Qty	Buy member	Trade Time	Buying Client	Sell Order No.	Sell Time	Sell Price	Sell Qty	Sell member	Selling Client
28-Dec-99	163010008	11:02:52	866.00	25000	Omega	11:02:52	Hulda	276020025	11:02:52	866	25000	DKB	Hulda
28-Dec-99	163010009	11:03:08	866.00	25000	Omega	11:03:09	Hulda	276020026	11:03:09	866	25000	DKB	Hulda
05-Jan-00	163010027	10:32:16	956.00	25000	Omega	10:32:17	Hulda	276020317	10:32:17	956	25000	DKB	Hulda
10-Feb-00	163010135	11:43:43	1438.00	15000	Omega	11:43:46	Hulda	276020102	11:43:46	1438	15000	DKB	Hulda
10-Feb-00	163010136	11:43:59	1438.00	15000	Omega	11:44:01	Hulda	276020103	11:44:01	1438	15000	DKB	Hulda
15-Feb-00	163010031	11:15:19	1529.00	35000	Omega	11:15:19	Hulda	276020309	11:15:18	1529	35000	DKB	Hulda
22-Feb-00	163010045	11:41:05	2001.00	25000	Omega	11:41:06	Hulda	276020072	11:41:06	2001	25000	DKB	Hulda
24-Feb-00	163010080	11:36:03	2107.00	10000	Omega	11:36:04	Hulda	276020256	11:36:03	2107	10000	DKB	Hulda
28-Feb-00	163010001	09:59:00	1810.00	25000	Omega	09:59:01	Hulda	276020003	09:59:00	1810	25000	DKB	Hulda
28-Feb-00	163010002	09:59:38	1811.00	25000	Omega	09:59:39	Hulda	276020004	09:59:39	1811	25000	DKB	Hulda
28-Feb-00	163010013	10:52:46	1774.00	25000	Omega	10:52:47	Hulda	276020050	10:52:47	1774.00	25000	DKB	Hulda
28-Feb-00	163010027	12:50:16	1786.00	25000	Omega	12:50:17	Hulda	276020133	12:50:16	1786	25000	DKB	Hulda
29-Feb-00	163010083	11:40:43	1764.50	25000	Omega	11:40:44	Hulda	276020238	11:40:44	1764.50	25000	DKB	Hulda
08-Mar-00	163010030	13:47:40	2487.00	25000	Omega	13:47:40	Hulda	276020249	13:47:40	2487	25000	DKB	DSQ H
13-Mar-00	163010002	10:44:45	2683.00	15000	Omega	10:44:46	Hulda	276020086	10:44:45	2683	15000	DKB	Hulda
13-Apr-00	163010008	9:59:51	1465.00	25000	Omega	09:59:51	Hulda	276020020	9:59:51	1465	25000	DKB	DSQ H
13-Apr-00	163010009	10:00:10	1463.00	25000	Omega	10:00:11	Hulda	276020021	10:00:10	1463	25000	DKB	DSQ H
13-Apr-00	163010010	10:00:27	1465.00	25000	Omega	10:00:27	Hulda	276020022	10:00:27	1465	25000	DKB	DSQ H
13-Apr-00	163010011	10:00:44	1465.00	25000	Omega	10:00:44	Hulda	276020023	10:00:43	1465	25000	DKB	DSQ H
02-Jun-00	1630010000000211	10:40:02	857.00	50000	Omega	10:40:02	SURE SJAJO O	27600300000000164	10:40:02	857	50000	DKB	DSQ H
14-Jun-00	1630010000000383	13:34:39	929.00	50000	Omega	13:34:40	Hulda	27600200000005170	13:34:40	929.00	50000	DKB	Hulda

1.16 It was found that, in all the manipulation of the shares of the company, DKB was generally the sell broker while the buy brokers were different at different points of time, though the modus operandi remained the same. The interspersing of the buy side mostly Hulda with different broking entities albeit belonging to the Jajoo group has been ingeniously managed with a view to avoiding attention to such concerted levels of activity in the scrip, while, in fact such an

arrangement was essentially between Jajoo group on the buy side and DKB or Prabhudas Liladhar Pvt. Ltd. on the sell side.

- 1.17 In the above facts and circumstances, it has been alleged that the aforesaid stock brokers viz. Woodstock Securities Pvt. Ltd. Woodstock Broking Pvt. Ltd. Omega Equities Pvt. Ltd have prima facie violated the provisions of Regulation 4 (b), (c) and (d) of 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), Clauses A(1) to (4) of Schedule II of the Code of Conduct as specified in the Securities and Exchange Board of India (Stock Brokers and Sub – Brokers) Regulations, 1992 (hereinafter referred to as the Broker Regulations) and SEBI circular dated September 14, 1999.

2.0 APPOINTMENT OF ENQUIRY OFFICER

- 2.1 On completion of investigations, SEBI appointed an Enquiry officer vide orders dated November 8, 2002 and 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 alleged violations committed by Woodstock Securities Pvt. Ltd., Woodstock Broking Pvt. Ltd. and Omega Equities Pvt. Ltd. as mentioned above while dealing in the shares of the company on behalf of their clients.

- 2.2 Accordingly, notices dated February 10, 2003 was issued to Woodstock Securities Pvt. Ltd., Woodstock Broking Pvt. Ltd. and Omega Equities

Pvt. Ltd. asking them to show cause as to why recommendations under Regulation 13 (1) of the Enquiry Regulations should not be imposed against them. The aforesaid stock brokers filed their reply and made submissions before the Enquiry Officer. The Enquiry Officer vide reports dated November 11, 2004 observed that Woodstock Securities Pvt. Ltd., Woodstock Broking Pvt. Ltd. and Omega Equities Pvt. Ltd. violated regulations 4(b) and (c) of the FUTP Regulations, Clauses A (1) to (4) of the Code of Conduct specified in Schedule II of the Broker Regulations and SEBI circular dated September 14, 1999 and further recommended to suspend their certificate of registration for a period of twelve months.

3.0 SHOW CAUSE NOTICES, REPLIES AND HEARING

- 3.1 Pursuant to the Enquiry Report, notices dated December 3, 2004 were issued to Woodstock Securities Pvt. Ltd., Woodstock Broking Pvt. Ltd. and Omega Equities Pvt. Ltd. asking them to show cause as to why appropriate action should not be taken against them as recommended by the Enquiry Officer as may be deemed appropriate. Woodstock Securities Pvt. Ltd., Woodstock Broking Pvt. Ltd. and Omega Equities Pvt. Ltd. are hereinafter collectively referred to as the said stock brokers. The respective copy of the Enquiry Report was also forwarded to the said stock brokers along with the said show cause notice.
- 3.2 The said stock brokers vide letters dated March 11, 2005 filed their similar submissions in replies to the show cause notices. The aforesaid stock brokers inter alia stated that consideration of the

enquiry report by the Chairman or the Member is a condition precedent for the issue of the show cause notice and that there was no indication in the notice that the said statutory requirement had been complied. They further contented that the failure to comply with the said statutory requirement resulted in the show cause notice being illegal. It is further added that since, the Enquiry Officer had exonerated the said stock brokers from the charge of regulation 4(d) of the FUTP Regulations, the other charges under regulation 4(b) and (c) would not sustain. The said stock brokers clarified that they had not indulged in any act so as to create a false or misleading appearance of trading in the securities market and that all their transactions (on behalf of their clients) were as per the instructions of the clients and were executed at the market prices. In respect of the charge under regulation 4(c) of the FUTP Regulations, it was submitted that the said stock brokers had not indulged in any transactions which were not genuine transactions and that all the transactions carried out by them were made at the market price as per the instructions of their clients. The said stock brokers asserted that a genuine transaction by itself would not attract the provisions of regulations 4 of the FUTP Regulations.

- 3.3 It was contended by the aforesaid stock brokers that the show cause notice is silent about the relation / link / nexus / connection with the counter party stock brokers. It was submitted that the proximity of orders placed was either a co-incidence or an attempt of synchronizing trades by their client. The stock brokers further added that they were not aware as to whether their client (Hulda) was having any nexus/arrangement with any of the counter party broker or

counter party client or that it itself (Hulda) was simultaneously placing orders through counter party broker and was matching of its own transactions.

- 3.4 They have further stated that Woodstock Broking Pvt. Ltd., Omega Equities Pvt. Ltd. and Woodstock Securities Ltd. are distinct and separate legal entities. It is submitted that simply because Mr. Suresh Jajoo is a common director in all the aforesaid three companies, no adverse conclusions could be drawn against the said stock brokers individually. Further they have contended that there was no supporting material on record to suggest that at the relevant time all aforesaid companies viz. Woodstock Securities Ltd., Woodstock Broking Pvt. Ltd. and Omega Equities Pvt. Ltd. were acting in concert or tandem for the purpose of indulging in manipulation.
- 3.5 It was further clarified that there was no meeting of minds between them and the counter party brokers / clients and that there was no direct evidence to support the same and therefore, the charge of synchronized trading / structured deals could not survive and should be dropped. They also stated that they were not aware that their client was simultaneously placing orders through itself or its related entities through the counter party broker in order to obtain finances from the counter party broker as alleged.
- 3.6 Woodstock Securities Pvt. Ltd. added that it had carried out 250 transactions in the shares of the company, out of which Enquiry Officer had chosen only 26 transactions to conclude that it had indulged in manipulation which was patently erroneous. Further it was

stated that transactions were spread over a period of about 6 months and that it was baseless to claim that out of so many transactions, the aforesaid 26 transactions spread over about 6 months were the cause of the alleged market manipulation. In respect of the trades executed on behalf of Shri Suresh Jajoo, Woodstock Securities Pvt. Ltd. submitted that out of the total transactions, only 2 transactions were matched. Further it is stated that the total turnover of Mr. Suresh Jajoo during that period was around Rs.116 crore which clearly indicated that such stray matching was a mere co-incidence. The Broker clarified that the transactions carried out by it on behalf of Shri Suresh Jajoo were in the capacity of a broker and client. Further the Broker stated that during the period of six months, it had executed numerous transactions and total shares traded by it were about 5.5 crore. The Broker stated that the quantum of 8,06,535 shares (26 trades) of the company formed only 1.48% of total shares transacted by it during the relevant period, which was exceedingly insignificant.

- 3.7 Woodstock Broking Pvt. Ltd. stated that it did not have any link/connection with any of the counter party client or broker and that there was no agreement/ co- ordination of any kind so as to match the buy order quantity with the counter party brokers. The Broker added that the matching of the said trades were mere co-incidence. The Broker stated that the alleged 44 synchronized transactions had taken place during a span of about 11 months. The Broker further clarified that that out of the 44 trades, 35 trades were executed with the counter party broker DKB while 9 trades were executed with Prabhudas Liladhar Pvt. Ltd. The Broker explained that it had executed 33 trades for Hulda in respect of which the counter party

clients were Hulda (12 trades), DSQ Industries Ltd. (10 trades) and DSQ Holdings Ltd (11 trades). For the balance, the explanation is that it had carried out 8 trades for its director, Shri Suresh Jajoo and 3 trades for Panther Fincap & Management Services Ltd. It also stated that it was not aware as to whether its client was having any nexus/arrangement with any of the counter party broker or counter party client or that it itself was simultaneously placing orders through counter party broker and was matching of its own transactions.

- 3.8 Omega Equities Pvt. Ltd. added that it had carried out 115 transactions in the shares of the company, out of which Enquiry Officer had chosen 21 transactions to conclude that it had indulged in manipulation which was patently erroneous. Further it was stated that transactions were spread over a period of about 6 months and that it was baseless to claim that out of so many transactions, the aforesaid 21 transactions spread over about 6 months were the cause of the alleged market manipulation. In respect of its trades for Shri Suresh Jajoo, Omega Equities Pvt. Ltd. submitted that out of the total transactions, only 1 transaction was matched while the total turnover of Mr. Suresh Jajoo during that period was around Rs. 41 crore which clearly indicated that such stray matching was a mere co-incidence. It further stated that in 15 trades (for Hulda), the counter party client was Hulda itself. Further the Broker stated that during the period of six months, it had executed numerous transactions, and total shares traded by it were more than 6 crore shares. The quantum of 5,40,000 shares of the company formed 0.9% of total shares transacted by it during the relevant period, which was exceedingly insignificant.

- 3.9 In respect of the allegations pertaining to the Code of Conduct specified in the Broker Regulations, the said stock brokers inter alia stated that they had maintained high standards of integrity, promptitude and fairness in the conduct of their business and that there was not even a single complaint pending against them. They have also stated that they had traded in the shares of the company in good faith for normal brokerage in consonance with the Rules and Regulations of SEBI/Stock Exchange. They added that they had maintained high standard of integrity, promptitude and fairness in the conduct of their business and that they had taken proper margin from their clients. It is further clarified that there was no material to show that the aforesaid stock brokers had spread rumors regarding the scrip. They asserted that all their transactions were through the prescribed mechanism of screen based trading de hors of any arrangement of any of the counter parties. They contended that they had not violated SEBI circular as alleged.
- 3.10 In respect of the nature of evidence required to sustain the charge of manipulation, the aforesaid stock brokers referred to the order dated October 27, 2001 passed by SAT in the matter of Sterlite Industries Ltd. vs. SEBI. The Broker also placed reliance on the judgments of Hon'ble Supreme Court inter alia in the case of Nandakishore Prasad Vs. State of Bihar (1978) 3SCC 366 and Razikram Vs. J.S. Chauhan – AIR 1975 SC 667. It also placed reliance on the judgments of the Hon'ble Supreme Court in the matter of Ex-Naik Sardar Singh Vs. Union of India (1931) 3 SCC 212 and Hindustan Steel Vs. of State of Orissa AIR 1970 SC 253, in respect of the quantum of penalty.

3.11 The main submissions made by the aforesaid stock brokers in brief are as follows:

- i) consideration of the enquiry report by the Chairman or the Member is a condition precedent for the issue of the show cause notice and there was no indication in the notice that the said statutory requirement had been complied.
- ii) since, the Enquiry Officer had exonerated the Broker from the charge of regulation 4(d) of the FUTP Regulations, the other charges under regulation 4(b) and (c) would not sustain.
- iii) the proximity of orders placed was either a co-incidence or an attempt of synchronizing trades by its client.
- iv) it was not aware as to whether the client was having any nexus/arrangement with any of the counter party broker or counter party client or that it itself was simultaneously placing orders through counter party broker and was matching of its own transactions.
- v) Woodstock Broking Pvt. Ltd., Omega Equities Pvt. Ltd. and Woodstock Securities Ltd. are distinct and separate legal entities.
- vi) there was no meeting of minds between them and the counter party brokers / clients and the shares traded in synchronized trades were minuscule as compared to their entire trades.
- vii) they had maintained high standards of integrity, promptitude and fairness in the conduct of their business and that they had traded in the shares of the company in good faith for normal brokerage in consonance with the Rules and Regulations of SEBI/Stock Exchange.

- 3.12 The said stock brokers inter alia requested SEBI to make available, the copy of the investigation report, Details sought from BSE, statement of Hulda, DKB and DSQ Holdings Ltd. and the order log and trade log of the counter party brokers.
- 3.13 An opportunity of hearing was also granted to the said stock brokers on September 19, 2006. Shri Guarav Banerjee, Senior Advocate appeared on behalf of the said stock brokers and in view of the common issues in all the 3 cases, he made common submissions on behalf of the said stock brokers. The Learned Senior Advocate reiterated the submissions of the said stock brokers made by them vide letters dated March 11, 2005. He also relied upon the order of SAT in the matters of Ketan Parekh Vs SEBI and Kasat Securities Private Ltd. Vs SEBI.

4.0 CONSIDERATION OF ISSUES AND FINDINGS

- 4.1 I have considered the respective Enquiry Reports dated November 11, 2004, the show cause notices dated December 3, 2004, replies dated March 11, 2005 filed on behalf of the said stock brokers, the oral submissions made on behalf of them and other materials available on record.
- 4.2 The said stock brokers contended that Woodstock Securities Pvt. Ltd., Woodstock Broking Pvt. and Omega Equities Pvt. Ltd. were separate legal entities and that simply because Shri. Suresh Jajoo was a common director in all the aforesaid three companies, no adverse

conclusions could be drawn against them, individually. In this context, I note that the said stock brokers were controlled by Shri Suresh Jajoo (promoter/common director) of Woodstock Securities Pvt. Ltd. and Woodstock Broking Pvt. Ltd, for the following reasons. Shri Suresh Jajoo with his wife Smt. Vimala Jajoo were holding 99.98% in Woodstock Securities Pvt. Ltd and 99.63% in Omega Equities Pvt. Ltd. during the relevant period. Further, I note that Shri Suresh Jajoo is holding more than 80% in Woodstock Broking Pvt. Ltd. and he along with Woodstock Securities Pvt. Ltd and Woodstock Broking Pvt. Ltd. are holding 99.95% in Millennium Equities Pvt. Ltd. Thus, Woodstock Securities Pvt. Ltd. Woodstock Broking Pvt. Ltd. Omega Equities Pvt. Ltd., Millennium Equities Pvt. Ltd. are closely held family concerns, controlled and managed by Shri Suresh Jajoo as evident from the shareholding pattern. The controlling interest is evident from the shareholding pattern. Further, from the replies of the said stock brokers dated March 11, 2005, it is seen that they are sharing the common address i.e 7/10, Botawala Building, 1st Floor, Horniman Circle, Fort, Mumbai- 400001. It is also pertinent to note that Shri Suresh Jajoo had also given statement to SEBI on July 08, 2002 and July 09, 2002 in his capacity as the promoter/director of the aforesaid stock brokers. The relevant extracts of the said statement are as follows:

Q1. "Please introduce yourself.

A1. I am Shri Suresh Jajoo, promoter/ director of Woodstock Securities P. Ltd., Woodstock Broking P. Ltd, Millennium Equities Pvt. Ltd., Omega Equities P. Ltd. and Herald Equities P. Ltd."

“Q2. Please explain what are the functions handled by you with these companies?

A2. I am handling client accounts (trading) and looking after administration in all these 5 entities. All these entities except Herald was in one office and each terminal was assigned to each separate broking entity.”

4.3 The copy of the said statement was provided to the said stock brokers. Further the competence of Shri Suresh Jajoo to represent the said stock brokers before the Investigating Officer and the Enquiry Officer was never in dispute. In view of the above, though the aforesaid stock brokers are separate legal entities, they are found to be closely held family concerns, controlled and managed by Shri Suresh Jajoo in all respects.

4.4 In view of the above and further since the issues and responses of Woodstock Securities Pvt. Ltd., Woodstock Broking Pvt. Ltd and Omega Equities Pvt. Ltd. are common/same, all the present proceedings against them are dealt with in a common order.

4.5 The said stock brokers have taken a preliminarily submission that the Enquiry Report was not considered by the Chairman or the Member while issuing the show cause notice dated December 3, 2004. The Broker contended that in terms of regulation 13 (2) of the Enquiry Regulations consideration of the Enquiry Report is a condition precedent for the issue of the show cause notice and that there was no indication in the said notice as to whether the said statutory requirement had been complied with. I note that, in terms of regulation

13(2) of the Enquiry Regulations, a show cause notice has to be sent to the intermediary concerned, after considering the report from the Enquiry Officer. In the present case, I note that the Enquiry Report was considered by the Competent Authority and accordingly, notices dated December 3, 2004 were issued by SEBI to the said stock brokers in accordance with the provisions of the Enquiry Regulations. That apart, the issuance of show cause notice provides an opportunity to the said stock brokers to submit their reply in relation to the findings of the Enquiry Officer and no prejudice is caused by the same. In view of the above, I am unable to accept the above contention of the said stock brokers and the same is accordingly rejected.

- 4.6 I note that the trades executed by the said stock brokers in the shares of the company on behalf of its clients viz. Hulda, Shri Suresh Jajoo and Panther Fincap & Management Services Ltd. are not disputed. One of the main contentions is that the said trades were executed as per the Rules and Regulations of SEBI / Stock Exchange as per the instructions received from the said clients. They have also clarified that there was no nexus between them and the counterparty client and that they (buying brokers) were not aware (at the time of the trades) that their client (Hulda) or DSQ Holdings Ltd. were simultaneously placing orders on the other side through DKB or Prabhudas Liladhar Pvt. Ltd. (selling brokers).
- 4.7 The contention of the said stock brokers that they were not aware of the counter party clients can not be accepted in the facts and circumstances of the present case. I observe that Shri Suresh Jajoo in his capacity as the promoter / director of Woodstock Securities Pvt.

Ltd and other stock brokers viz. Woodstock Broking P. Ltd., Millennium Equities Pvt. Ltd., Omega Equities P Ltd., and Herald Equities P. Ltd. had given a statement to SEBI on July 8, 2002 and July 9, 2002. The copy of the said statement was already provided to the said stock brokers by the Enquiry Officer along with the show cause notice. The extracts of the relevant portion of the said statement are cited below :

“Q.53 Have you ever heard of Shri Soumyan.?

Ans. Yes, we have heard of him. He was an Executive Assistant of Dinesh Dalmia, of DSQ group and we used to talk to him once a week in his office in Chennai regarding current working of the company – DSQ Software Ltd.

Q.4 Who introduced Hulda Properties & Trades Ltd. to you.

Ans. We, on our own contacted Hulda Properties and Trades in Calcutta in first half of 1998 – 99 as we were aware from market sources that they are doing large business in shares and stocks. Thereafter pursuant to negotiations with Manoj Bhalotia, director of Hulda, we entered into agreement with them. A copy of the agreement will be given to you tomorrow.

Q5. Who was placing orders on behalf of Hulda Properties & Trades Ltd. How were the orders placed?

Ans. Mr Manoj Bhalotia, generally used to place orders on behalf of Hulda on telephone during market hours, with me, specifying name of exchange, name of scrip, price, quantity etc. then we used to execute order immediately based on the exchange specified. We used to confirm order execution on telephone and used to send contracts in the same evening by courier.

Q.65. It is seen from the order log and trade details of the exchange that on 1-Dec-1999, Prabhudas Liladhar placed an order for sale of 14000 shares of DSQ Software on behalf of DSQ Holdings @ Rs.458 at 2:15:27 hrs. This sale order got matched with the buy orders of Hulda transaction, which was placed through member Woodstock Broking for 14000 shares @Rs.458 at 2.15.26. The buy and sell orders were placed within a space of 1 seconds. Since the buy and sell order have been put almost at the same time and also there is almost exact matching in the quantity and rate, it is clear that these orders were synchronized and were put with a view to match. Do you confirm this.

Ans. On some occasions, our client Hulda used to telephone us from Calcutta and request that he wanted his position to be shifted to us from Prabhudas Liladhar, specifying the quantity of shares. Then, we used to get in touch with Prabhudas Liladhar or vice versa for executing the transaction and we used to punch the orders accordingly.

Q.66 Similar instances of order matching were found on 10/12/99, 13/12/99 and 1/3/2000 between Woodstock broking and Prabhudas Liladhar. We are showing you the order log and trade log received from the stock exchanges for the above dates. The buy and sell orders were placed almost at same time Since the buy and sell order have been put almost at the same time and also there is almost exact matching in the quantity and rate, it is clear that these orders were synchronized and were put with a view to match. Do you confirm this.

It is seen that there was exact matching between buy and sell orders. It appears that there is prior understanding between buyer and seller? Do you agree? Has one from your office contacted Prabhudas Liladhar for this execution?

A. On some occasions, our client Hulda used to telephone us from Calcutta and request that he wanted his position to be shifted to us from Prabhudas Liladhar, specifying the quantity of shares. Then, we used to get in touch with Prabhudas Liladhar or vice versa for executing the transaction and we used to punch the orders accordingly.

4.8 From the above statements of Shri Suresh Jajoo, it is fairly established that the said stock brokers were in regular touch with Shri Soumyan, who was none other than the executive assistant of Shri Dinesh Dalmia. Further, it is admitted that the said stock brokers took the initiative to contact Hulda as well and pursuant to negotiations with the director of Hulda, they entered into agreement with Hulda. Further, the said stock brokers had also placed orders for Hulda simultaneously with the orders of the stock broker viz. Prabhudas Liladhar Pvt. Ltd. for the purpose of shifting the position of Hulda. The above instances would imply that the Broker had knowledge about the counter party broker (DKB or Prabhudas Liladhar)/ client (Hulda/DSQ Holdings Ltd./DSQ Industries Ltd.) at the time of the synchronized trades. Further, in continuation of the above mentioned statement, Shri Suresh Jajoo vide Woodstock Securities' letter dated July 29, 2002 inter alia clarified in para 7 *"Sometimes to transfer their position from DKB at the instructions of our client Hulda Properties and Trade Ltd. our office use to call the DKB office for execution of the trade"*.

4.9 The foregoing statements and the written clarification make it clear that the said stock brokers were in touch with the counter party stock brokers, besides, being fully aware of the nature of transactions. What more, in most of the synchronized transactions, the counter

party client also was Hulda (in 41 out of 91 synchronized trades) clinching the issue of meeting of minds.

4.10 In addition to the above instances, I also note that the aforesaid stock brokers had inter alia executed number of synchronized trades between themselves for Hulda. The details of some of the synchronized trades executed by the Broker are as follows :

Trade Date	Buy Member	Buy Time	Buy Qty.	Buy Price (Rs)	Buy Client	Trade Time	Trade Qty	Sell Member	Sell Order Time	Sell qty.	Sell Order Price (Rs)	Sell Client
25-Feb-00	WSS*	15:17:43	19000	1898.00	Hulda	15:17:44	16144	Omega	15:17:05	19000	1898.00	Hulda
25-Feb-00	WSS	15:17:43	19000	1898.00	Hulda	15:17:44	16144	Omega	15:17:05	19000	1898.00	Hulda

WSS*: Woodstock Securities Pvt. Ltd.

4.11 Further, the concerted activity among the said stock brokers are also borne out from the following statement of Shri Suresh Jajoo:

“Q. 22 It is seen from the order log and trade details of the exchange that on 25-Feb-00 Omega Equity placed an order for sale of 19000 shares of DSQ Software on behalf of Hulda Properties@ Rs. 1898.00 at 15:17:05. This sale order got matched with the buy order of Hulda Properties, which was placed through member Woodstock Sec for 19000 shares @ Rs. 1898.00 at 15:17:43. The buy and sell orders were placed within a space of 0:00:38 seconds. Since the buy and sell order have been put almost at the same time and also there is almost exact matching in the quantity and rate, it is clear that these orders were synchronized and were put with a view to match. Do you confirm this.

Ans We may have shifted the position because of shortfall in trading limit of one of our broking entities. However we will revert back in a day or two for the exact reason for doing the same.

Q. 23 It can be seen that that the buying and selling client is the same entity. As such there is no change in the ownership of shares, (i.e. shares were sold by Hulda Properties through Omega Equity were again purchased back by Hulda Properties through Woodstock Sec by entering into synchronized deals at the market), why it can not be said that these transactions are not genuine sale and purchase transaction and had the effect of creating artificial volume. Do you confirm this.

Ans. We may have shifted the position because of shortfall in trading limit of one of our broking entities. However we will revert back in a day or two for the exact reason for doing the same”.

Excepting the letter dated July 29, 2002 from Woodstock Securities Pvt. Ltd. nothing else was received. The said letter seeks to explain some of the synchronized transactions as referred therein as having being undertaken to shift particular quantity from one stock broker to another stock broker for reducing clients' position. The same is not acceptable since it is a contrived effort to palm off synchronized trades under the guise of shifting position. No matter what was the putative objective, the transactions, per se, were synchronized transactions creating artificial volume with prior meeting of minds and the conduct of the aforesaid 3 stock brokers needs to be judged in the attendant

material circumstances of the case wherein the Associate of Shri Dinesh Dalmia have been debarred, on account of entering into synchronized and circular deals wherein the buy order and sell orders were inputted in the trading system at the same time for same rate and same quantity, to the detriment of investors and the safety and credibility of the securities market.

4.12 I also note that Woodstock Securities Pvt. Ltd. vide letter dated May 14, 2002 informed SEBI that they had taken Rs. 20 crore on January 06, 2000 from the company as Inter Corporate Deposit which they had returned on January 20, 2000 and January 28, 2000. This again shows that the said stock brokers had close nexus with the company.

4.13 I note that Woodstock Securities Pvt. Ltd. executed substantial trades in the shares of the company for Hulda during December 1999 to March 2001 and in the process it had also executed synchronized trades in the said shares of the company for other clients with the counterparty broker viz. DKB, as mentioned in the table at para 1.15. I note that it had executed synchronized trades repeatedly between December 1999 and June 2000 (except May 2000). In all the above synchronized trades, the said broker was executing buy orders for Hulda and also for its director and whiles the sell orders were placed by DKB for Hulda or DSQ Holdings Ltd. Both the buy orders and sell orders were placed almost at the same time (in majority of the trades), with just a difference of few seconds (the time difference was 0 -3 seconds). Out of the 26 buy orders placed by the Broker (as noted from the table at para 1.15), 21 were perfectly matched with the sell orders even with respect of the price to the extent of two decimal

points. The consistency with which the said trades were executed by the Broker on behalf of its client in the shares of the company cannot be a matter of coincidence, considering its nature (the price, quantity and time) and the high liquidity of the scrip in an anonymous screen based trading system.

4.14 I note that Woodstock Broking Pvt. Ltd. executed substantial trades in the shares of the company for Hulda during December 1999 to March 2001 and in the process it had also executed synchronized trades in the said shares of the company for its clients with the counterparty broker viz. DKB, as mentioned in the table at para 1.15. I note that the Broker had executed synchronized trades repeatedly between December 1999 and November 2000. In all the above synchronized trades, the Broker was executing buy orders for Hulda and also for its director and while the sell orders were placed either by DKB or Prabhudas Liladhar Pvt. Ltd. for Hulda or DSQ Holdings Ltd. Both the buy orders and sell orders were placed almost at the same time (in majority of the trades), with just a difference of few seconds. I note that the Broker had inter alia executed 44 synchronized trades for its clients. The consistency with which the said trades were executed by the said broker on behalf of its client in the shares of the company cannot be a matter of coincidence, considering its nature (the price, quantity and time) and the high liquidity of the scrip in an anonymous screen based trading system.

4.15 I note that Omega Equities Pvt. Ltd. had executed substantial number of synchronized trades in the shares of the company with its counter party stock broker, DKB as mentioned in the tables at para 1.15,

regularly and continuously since December 1999 to June 2000 (except May 2000). The Broker was executing buy orders and DKB was executing the sell orders during the above period. From the aforesaid transactions, I observe that both the buy orders and sell orders were placed almost at the same time (in majority of the trades), with just a difference of few seconds. In ten transactions, there was no time difference between the buy and sell orders. In 9 trades, the time difference was only one second. In the other 2 trades, the difference was 2 and 3 seconds. i.e within a maximum time difference of 3 seconds, the Broker had executed various trades. In all the 21 buy orders placed by the said stock broker (as noted from the table at para 1.15), the buy orders were perfectly matched with the sell orders even with respect of the price to the extent of two decimal points.

4.16 Thus, the said stock brokers had inter alia executed number of synchronized trades for Hulda between themselves. The above instances would prove the direct participation of the said stock brokers individually as well as collectively in the entire transactions that took place in the shares of the company for the purpose of giving a misleading appearance of trading in the shares of the company and thereby artificially increasing the volume of the said shares. It is true that the stock brokers act on the advice of their client and that in a normal trade executed through the exchange mechanism, the broker may not be aware of the counter party. However, considering the facts and circumstances of the present case, wherein the trades in a highly liquid scrip were executed between common set of brokers and clients regularly as mentioned in this order, I have no doubt to hold that the said stock brokers were aware of the counterparty when they were

executing orders for their clients in the shares of the company. It is the brokers who executes the trade by punching the buy / sell order at a specific time. I note that every trade establishes the price of the scrip and accordingly it matters. The trades executed by the said stock brokers for the purpose of creating artificial volume and price interfered with the fair price discovery system.

4.17 The said proximity in the placing of orders at the same price and for the same quantity almost at the same time resulted in the matching of the aforesaid transactions, with all the ingredients i.e. quantity, price and the time, required to conclude the trades.

4.18 I note that during the relevant period, the shares of the company were highly liquid and that the liquidity in trading implies amount of activity in such shares wherein a considerably large number of buyers and sellers execute trades. In such a situation where the participants are numerous, it is almost improbable to get a stock broker's trades executed always with the same counter party stock broker, unless, the said stock broker is in collusion with the counter-party stock broker and the client. Further, a higher volatility means that a security's value can potentially be spread out over a larger range of values. This means that the price of the security can change dramatically over a short time period in either direction. In such a scenario where the price fluctuates in each second, it is almost impossible for the client to give a price range which would only match with a particular counter-party stock broker at a particular quantity. In all the transactions, both the buying and selling client was associated with the company and, in such scenario, the trades of the said stock brokers for their clients

would clearly establish that they were party to the ongoing market manipulation. The said stock brokers had misused the screen based trading by executing such fictitious trades on the stock exchange.

4.19 In the above facts and circumstances, the transactions executed on behalf of the clients which were matched with the counter party client belonging to the company cannot be a coincidence and the same would not have been possible without a pre determined mind to execute the same with the price, quantity of shares matching in respect of the buy and sell orders. Such synchronized deals involving interplay of market forces, pre supposes the active participation of the said stock brokers. The series of trades in the form of synchronized trades would only lead to the finding that the said trades executed by the said stock brokers were done with the purpose of manipulating the volume in the shares of the company to the detriment of the gullible investors. The said concerted level of activity and that too repeatedly for a number of trades is only compatible with the purposes of manipulating the securities market on the part of the said stock brokers.

4.20 I observe that the proof of manipulation almost always depends on inferences drawn from a mass of factual details. Findings must be gathered from patterns of trading data and the nature of the transactions etc. Several circumstances of a determinative character coupled with the inference arising from the conduct of the parties in a major market manipulation could reasonably lead to conclusion that the Broker was responsible in the manipulation. The evidence, direct or circumstantial, should be sufficient to raise a presumption in its favour with regard to the existence of a fact sought to be proved. As

pointed out by Best in “Law of Evidence”, the presumption of innocence is no doubt *presumptio juris*; but everyday practice shows that it may be successfully encountered by the presumption of guilt arising from circumstances, though it may be a presumption of fact. Since it is exceedingly difficult to prove facts which are especially within the knowledge of parties concerned, the legal proof in such circumstances partakes the character of a prudent man’s estimate as to the probabilities of the case. Hon’ble Securities Appellate Tribunal (SAT) has observed in the matter of Ketan Parekh Vs. SEBI :

“..... Whether a transaction has been executed with the intention to manipulate the market or defeat its mechanism will depend upon the intention of the parties which could be inferred from the attending circumstances because direct evidence in such cases may not be available.”

- 4.21 Presumption plays a critical role in coming to a finding as to the involvement or otherwise of a market participant in any manipulation. For instance, while trading, a lip service can be paid to a screen based trading system while agreement is reached beforehand between brokers to effect the transaction. Anonymity can be a cloak to cover anastomosis of interest. Therefore, the hackneyed plea based on intentions in the market place can not pass muster in all circumstances, more so when such intentions are in the special / peculiar knowledge of the parties to the transactions. Also any suggestion attributing innocence to the parties involved in such transactions would give rise to an untenable situation where certain other third persons/entities alone would be responsible for the

manipulation and none else. The execution of trades for its client without obtaining the necessary documents cannot be expected from a prudent stock broker.

4.22 In a quasi judicial proceeding like this turning on preponderance of probability, the standard of proof is prudent man's estimate as to the probabilities of the case. In this view also, any plea to delink the Broker from the collective nexus would be a travesty of facts.

4.23 The peculiar nature of the trades executed by the said stock brokers and the modus operandi by which the said trades were executed as discussed above coupled with the statement of Shri Suresh Jajoo, the director / promoter of the Broker and other stock brokers viz. Woodstock Broking P. Ltd., Millennium Equities Pvt. Ltd., Omega Equities P Ltd., and Herald Equities P. Ltd., established that the said transactions were the outcome of a pre-determined and planned action. The said stock brokers individually and collectively allowed Hulda, who was none other than the associate of Shri Dinesh Dalmia, to trade in the shares of the company substantially and allowed the said client to create misleading appearance of trading in the shares of the company and thus created artificial price by indulging in trades which were not genuine.

4.24 The contention of the aforesaid stock brokers that they were not aware as to whether Hulda belonged to the Promoter group of the company and that they had no knowledge about the connection between the company and their client has to be appraised on the overwhelming body of material evidences brought on record and discussed in detail

supra. In the admitted position when, in most of the synchronized transactions, the counter party client was the same and the counter party broker was only DKB or Prabhudas Liladhar Pvt. Ltd., when transactions were done without change of beneficial ownership, and when some of the synchronized transactions were allegedly done under the guise of shifting position of the same client from one stock broker to another stock broker, while in reality it was a typical synchronized transaction with perfect meeting of minds, it is far-fetched to claim that the said stock brokers were not aware of the counter party and the true nature of such transactions. On the contrary, the said stock brokers were very much in the thick of it and their plea of ignorance is nothing but a feint. In the instant cases, the three stock brokers belong to the same group, with unity of control resting with Shri. Suresh Jajoo. In that view of the matter, the transactions of the said stock brokers in the shares of the company have to be viewed together. Collectively, they have accounted for 91 synchronized transactions, as per the show cause notice (Woodstock Securities Pvt. Ltd. 26, Woodstock Broking Pvt. Ltd. 44 and Omega Equities Pvt. Ltd. 21) and the same cannot be dismissed as of no consequence, on the specious plea that they were on a very small scale, spread over a period of time. On the contrary, such synchronized transactions have to be appreciated on materials/data/statements brought on record establishing the nexus between the said stock brokers, the company, the associates of Shri Dinesh Dalmia and the selling side stock brokers. Further the distribution of transactions among the said 3 stock brokers in the same period beguiling the unity of control that permeated such synchronized transactions is again a clever device at suppressio veri

and suggestio falsi. It was found that, in all the manipulation of the shares of the company, DKB was generally the sell broker while the buy brokers were different at different points of time, though the modus operandi remained the same. The interspersing of the buy side (with mostly Hulda) with different broking entities albeit belonging to the Jajoo group has been ingeniously managed with a view to obviating attention to such concerted levels of activity in the scrip, while, in fact such an arrangement was essentially between Jajoo group on the buy side and DKB or Prabhudas Liladhar Pvt. Ltd. on the sell side. Thus there was total anastomosis and communion of interests between the said stock brokers on the buy side, 2 brokers on the sell side, Shri Dinesh Dalmia and his associate entities, though sought to be disguised in crafty contrivances.

- 4.25 As observed by the Hon'ble Securities Appellate Tribunal (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.”

4.26 Further, SAT in the matter of Ketan Parekh Vs SEBI had inter alia observed :

“The word ‘synchronise’ according to the Oxford dictionary means “cause to occur at the same time; be simultaneous”. A synchronized trade is one where the buyer and seller enter the quantity and price of the shares they wish to transact at substantially the same time. This could be done through the same

broker (termed a cross deal) or through two different brokers. Every buy and sell order has to match before the deal can go through. This matching may take place through the stock exchange mechanism or off market. When it matches through the stock exchange, it may or may not be a synchronised deal depending on the time when the buy and sell orders are placed. As already observed 'synchronisation' or a negotiated deal ipso facto is not illegal. A synchronised transaction will, however, be illegal or violative of the Regulations if it is executed with a view to manipulate the market or if it results in circular trading or is dubious in nature and is executed with a view to avoid regulatory detection or does not involve change of beneficial ownership or is executed to create false volumes resulting in upsetting the market equilibrium..... Any transaction executed with the intention to defeat the market mechanism whether negotiated or not would be illegal. Whether a transaction has been executed with the intention to manipulate the market or defeat its mechanism will depend upon the intention of the parties which could be inferred from the attending circumstances because direct evidence in such cases may not be available. The nature of the transaction executed the frequency with which such transactions are undertaken, the value of the transactions, whether they involve circular trading and whether there is real change of beneficial ownership, the conditions then prevailing in the market are some of the factors which go to show the intention of the parties. This list of factors, in the very nature of things, cannot be exhaustive. Any one factor may or may not be decisive and it is

from the cumulative effect of these that an inference will have to be drawn.”

4.27 I note that the trades executed by the Broker on behalf of its client in the shares of the company created misleading appearance of trading in the said shares and resulted in the reflection of prices of securities of the company based on transactions which were not genuine and which affected the unsuspecting investors. Thereby, the trades of the Broker for its clients (including Hulda) artificially raised the prices of the shares of the company. As the client of the Broker and the counter party clients are associates, it can be said that they did not intend to effect the transfer of the beneficial ownership, but the web of transfers was meant to be only a device to inflate, depress, or cause fluctuations in the market price of securities.

4.28 The contention of the said stock brokers that their transactions on behalf of the client was minuscule as compared to the total volume of shares of the company at BSE, can not be viewed in isolation. The trades of the said stock brokers have to be seen in the overall situation as existed at the relevant time. In this context, I would like to observe that the said persons alone cannot manipulate its shares. It required various persons/entities/stock brokers etc. to execute the game plan. The role of the each individual player would be different from each other. Accordingly, the nature/concentration of the involvement of the individual player would vary. However, low it might be the individual involvement can not be ignored. Otherwise, it would lead to a situation wherein only the company and its associates would alone be responsible for the entire manipulation. I am unable to accept

the said proposition. In the present case, I note that the said stock brokers collectively executed 44.5% and 38% trades of the total buy and sell trades of the associates of Shri Dinesh Dalmia in the shares of the company. Further, I note that inter alia the various synchronized trades executed by the stock brokers in the shares of the company which are highly liquid can not be matched (in all respects) without a pre determined mind.

- 4.29 Once it is found that certain trades were executed with a pre determined plan for the purpose of creating a false appearance in the market, it is immaterial to look into the number of such trades, volume of the shares traded. In manipulation, the participation of a specific stock broker may be minuscule while comparing with the total number of trades, volume of the shares traded in the exchange etc. Given the fact that there was manipulation in the scrip as borne out by the orders of SEBI, such manipulation could not have been possible by Shri Dinesh Dalmia and his associates alone without the brokers acting in concert. Further, it stands to reason that the brokers who had direct dealings with them (in the present case, DKB, said stock brokers etc. by executing synchronized trades) can't escape their responsibility on the plea that it was not aware of its client's manipulative intentions in the market. There may not be any direct evidence in the context of market operations as to whether there was a constructive knowledge on the part of the said stock brokers in respect of the manipulation, while dealing with their clients. It is a matter of inference from the attendant circumstances. The present case has all the ingredients and features as noticed in the case of connected entities namely buying client (Hulda), selling broker (DKB) and selling client Hulda/DSQ

holdings Ltd./DSQ Industries Ltd. and these 4 entities had been penalized in separate proceedings for manipulating in the shares of the company. The enquiry proceeding against Prabhudas Liladhar Private Ltd. is pending. In such a position which has come to stay, the role of the buying broker (said stock brokers) can not be any different and has to be consistent with the overall scheme of market manipulation in the shares of the company as transpired, to which it was a necessary party, though on a lesser scale. In this connection, the observation of SAT in the matter of Triumph International Finance Ltd. Vs SEBI is very relevant. "It must not be forgotten that every trade establishes the price of the scrip and when two brokers punch in the buy and sell orders simultaneously at a pre determined price which they fix and match the trades on the screen of the system they are obviously interfering with the fair price discovery process of the exchange and this would amount to manipulation and bench marking the price. Such trades are prohibited by the unfair trade practices regulations framed by the Board". Further out of the five parties to the transactions, four have already been penalized. The question that arises for consideration is – could it be said that the said stock brokers were innocent. In the present case, I note that the said stock brokers knowingly executed the synchronized trades at the instructions of their clients (including associates of Shri. Dinesh Dalmia) under the guise of shifting position from one broker to another broker. I also further note that the said stock brokers had received loan of Rs.20 crore reportedly for their working capital requirement which indicate their nexus with the company, thereby establishing a strong community of interlacing interest of the said stock brokers and the company and the Shri Dinesh Dalmia and his associates in their transactions relating to

the company. It is the Broker who plays a pivotal role in synchronizing the trades with the counter broker and match the same through the exchange mechanism by punching the buy and sell orders simultaneously. Definitely it is a clear case of having congruence of interest and such an act could not be anything but compatible with a scheme of manipulation, to which the said stock brokers is a privy. It is true that the brokers act on the advice of their clients but it is they who actually implement the game plan. In the circumstances, it becomes increasingly evident that the subsequent synchronized deals involving the said stock brokers with associates of Shri Dinesh Dalmia who were interconnected as brought out supra were yet another step in manipulating the volume and price of the shares of the company.

4.30 A cumulative analysis of the facts of the case, clearly indicate that the said stock brokers did not act in a bonafide manner. On the contrary, the above facts highlight its complete involvement in the creation of misleading market in the shares of the company and the creation of artificial volume and price in the said shares.

4.31 I note that the buying and selling clients were the associates of the company and there was complete matching of buy and sell orders (in respect of quantity and order price). The time difference between the buy and sell orders was negligible, while the said trades were executed primarily with a view to artificially increase the trading volumes in the shares of the company. Artificial increase in the volumes of scrip has the adverse effect on the innocent investors of the market who get induced to buy the shares. SAT in the matter of Ketan Parekh vs. SEBI had observed:

“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.”

- 4.32 In respect of the request of the said stock brokers to make available, the copy of the investigation report, Details sought from BSE, statement of Hulda, DKB and DSQ Holdings Ltd. etc. I observe that all the relied upon documents were given to the Broker by SEBI. Further, the copies of the statement of Shri Suresh Jajoo dated July 8, 2002 and July 9, 2002 were also provided to the aforesaid stock brokers by the Enquiry Officer along with the show cause notices . Shri Suresh Jajoo (the promoter / director of various stock brokers as mentioned above) himself represented all the aforesaid stock brokers and had given the common statement on behalf of all of them.

4.33 Further, the said stock brokers contended that since the Enquiry Officer exonerated it from the charge of regulation 4(d) of the FUTP Regulations, the other charges under regulation 4(b) and (c) would not sustain. However, I note that the Enquiry Officer had not exonerated the Broker on the charge of regulation 4 (d) of the FUTP Regulations. The Enquiry Officer in his report had inter alia observed “as regards (d) of Regulation 4, there is no sufficient material to conclude either way.” Thus it appears that the Enquiry Officer had not exonerated the said stock brokers from the charge of Regulation 4 (d) of the FUTP Regulations. However, according to the Enquiry Officer there was no sufficient material to take a decision as to whether the said stock brokers had violated regulation 4 (d) or not. In this context, I note that most of the synchronized trades of the said stock brokers (41 out of 91) were executed between the same client (Hulda) i.e. Hulda was simultaneously placing buy orders through the said stock brokers and sell orders through another stock broker, DKB or Prabhudas Liladhar Pvt. Ltd. Thus the trades were executed between the same clients. The said trades were fictitious as it were executed between the same clients. Further, some other trades were executed between Hulda on one side and DSQ Holdings Ltd./ DSQ Industries Ltd. on the other (sell) side. Thus, I note that either the shares were traded between the same client or between the associates of Shri Dinesh Dalmia and therefore it can be inferred that the said trades were executed without intending to effect the transfer of beneficial ownership but to operate only as a device to cause artificial volume besides fluctuations in the price of the shares of the company. In view of the above, it is fairly

established that the said stock brokers have violated Regulation 4 (d) of the FUTP Regulations.

4.34 Apart from that, the provisions of regulation 4 of the FUTP Regulations are independent to each other. The said regulation is quoted below for sake of ready reference :

“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”.

4.35 On a perusal of the above, in terms of regulation 4(b) of the FUTP Regulations, no person shall indulge in any act which is calculated to create a false or misleading appearance or trading on the securities market. The expression “any act” appearing in regulation 4 (b) has to be read in a wider meaning and it includes the involvement of a stockbroker in a trade which creates a false or misleading appearance

of trading in the securities market. In the present case, as discussed above, inter alia the synchronized trades of the said stock brokers (individually and collectively) on behalf of their clients (including the associate of Shri Dinesh Dalmia) created a misleading appearance of trading in the shares of the company. Most of such trades were either executed between the same clients (Hulda) or between the associates of Shri Dinesh Dalmia (Hulda /DSQ Holdings Ltd./DSQ Industries Ltd.) Thus by entering into such fictitious trades, the said stock brokers facilitated their clients to create a misleading appearance of trading in the shares of the company. Therefore, I do not have any hesitation to hold that the said stock brokers had violated the provisions of regulation 4 (b) of the FUTP Regulations. Similarly, in terms of regulation 4(c) of the FUTP Regulations, no person shall indulge in any act which results in the reflection of prices of securities (based on transactions which are not genuine trade transactions). As mentioned above, the said stock brokers had entered into fictitious trades (between the same client/ other associates of Shri Dinesh Dalmia) which resulted in the reflection of the price of the shares of the company. Thus, I hold that the said stock brokers have also violated the provisions of regulations 4 (c) of the FUTP Regulations also. Therefore, I am unable to accept the contention of the said stock brokers that since the Enquiry Officer has exonerated them from the charge of regulation 4(d), the charges under regulations 4 (b) and (c) would not sustain and in view of the established position as discussed above, I hold that the said stock brokers have violated the provisions of regulation 4 (b), (c) and (d) of the FUTP Regulations.

4.36 The natural corollary to this issue is whether the said stock brokers had maintained high standards of integrity, promptitude, fairness and exercised due skill, care and diligence in the conduct of its business. In terms of the provisions of the Clauses A(1) to (4) of the Code of Conduct prescribed under the provisions of the Broker Regulations, a stock broker shall not inter alia create false market or indulge in any act detrimental to the investors' interest or which leads to the interference with the fair and smooth functioning of the securities market. The stock broker shall also maintain high standards of integrity, promptitude and fairness and shall act with due skill, care and diligence in the conduct of his business. It is also a requirement that a stock broker shall not inter alia indulge in manipulative transactions with a view to distort the market equilibrium. In the present case, the trades of the said stock brokers (as explained in detail above) created a misleading appearance of trading in the shares of the company, artificial volume and price in the shares of the company by vitiating the price discovery mechanism in the securities market. It amply demonstrates that the said stock brokers, instead of maintaining the Code of Conduct as expected of a SEBI Registered intermediary, virtually became a party to the manipulation in the shares of the company to the detriment of genuine investors.

4.37 A Stock broker is expected to protect the interest of the investors in the securities market in which he operates and it ill behoves him to become a party to any market manipulation. Being an intermediary operating in the securities market, a stock broker is required to maintain high standards of integrity, promptitude and fairness in the conduct of the business dealings as specified in the Code of Conduct

of the Broker Regulations (mentioned above). An intermediary who fails to perform such duties has to be punished in terms of the provisions of the Enquiry regulations. In view of the above, it is established that the said stock brokers had violated the above clauses of the Code of Conduct prescribed under the Broker Regulations.

- 4.38 In the facts and circumstances, it is established that the said stock brokers had violated Clauses A(1) to (4) of the Code of Conduct as specified in Schedule II of the Broker Regulations.
- 4.39 SEBI circular dated September 14, 1999 stipulates that all negotiated deals shall be executed only on the screens of the exchanges in the price and order matching mechanism of the exchange just like any other normal trade. In the present case, as already observed, most of the trades executed by the said stock brokers in the shares of the company were fictitious as the buying and selling client were the same. Further, the said trades were found to be not genuine trades and executed only for the purpose of creating misleading appearance of trading, artificial volume / price in the shares of the company. This is not the one which was envisaged under the aforesaid SEBI circular. The said stock brokers had executed several trades which facilitated inter alia its client (Hulda) to transact substantially in the shares of the company. As discussed above, the trades of the associates of Shri Dinesh Dalmia were executed through the said stock brokers without intending to effect the transfer of beneficial ownership but to operate only as a devise to cause fluctuations in the price of the shares. The fictitious trades which resulted in the creation of artificial price and misleading and the appearance of trading cannot be treated as the

one which are envisaged under the above circular. Therefore, it is established that the said stock brokers had violated the SEBI Circular dated September 14, 1999.

4.40 In the facts and circumstances, the said stock brokers viz. Woodstock Securities Pvt. Ltd. and Woodstock Broking Pvt. Ltd., Omega Equities Pvt. Ltd. individually and collectively have violated regulation 4(b),(c) and (d) of the FUTP Regulations and Clauses A(1) to (4) of the Code of Conduct as specified in Schedule II of the Broker Regulations and SEBI Circular dated September 14, 1999. The aforesaid violations committed by the aforesaid stock brokers call for penalty. Considering the facts and circumstances of the case, I, find that this is a fit case for imposing major penalty as ordered herein under.

4.41 In respect of the quantum of penalty, the said stock brokers have relied upon the decision of the Hon'ble Supreme Court in the matter of Hindustan Steel Vs. of State of Orissa AIR 1970 SC 253. In this context, I note the observation of the Hon'ble Supreme Court in the matter of The Chairman, SEBI Vs Shriram Mutual Fund and anr. "The Tribunal has erroneously relied on the judgment in the case of Hindustan Steel Ltd. Vs. State of Orissa, AIR 1970 SC 253 which pertained to criminal/quasi-criminal proceeding. That Section 25 of the Orissa Sales Tax Act which was in question in the said case imposed a punishment of imprisonment up to six months and fine for the offences under the Act. The said case has no application in the present case which relates to imposition of civil liabilities under the SEBI Act and Regulations and is not a criminal/quasi-criminal proceeding.

In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulation is established and hence the intention of the parties committing such violation becomes wholly irrelevant. A breach of civil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention must be made by the defaulter with guilty intention or not. We also further held that unless the language of the statute indicates the need to establish the presence of mens rea, it is wholly unnecessary to ascertain whether such a violation was intentional or not." Thus, the Honourable Supreme Court held that penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the SEBI Act, 1992 and the Regulation framed there under is established and hence the intention of the parties committing such violation becomes totally irrelevant.

5.0 ORDER

- 5.1 In view of the foregoing, I, 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, hereby impose a major penalty of suspension of certificate of registration of M/s. Woodstock Securities Pvt. Ltd. Member, Bombay Stock Exchange Ltd. (Registration no. INB 010989634), Woodstock Broking Pvt. Ltd., Member, National Stock Exchange of India Ltd. (Registration no. INB 230776631) and Omega

Equities Pvt. Ltd., Member, Bombay Stock Exchange Ltd. (Registration no. INB 011127355) for a period of twelve months.

5.2 This order shall come into force immediately 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: June 6, 2007