

SECURITIES AND EXCHANGE BOARD OF INDIA

Coram: T. C. Nair, Whole Time Member

DATE OF HEARING : 17-07-2006

APPEARANCE OF PARTIES

**FOR THE NOTICEE : Shri Anil Jain, Advocate, M/s Juris Matrix
Shri Ramrakh Bohra**

**FOR SEBI : Shri P. K. Bindlish, Chief General Manager
Shri Pradeep Bhowmik, Manager**

ORDER

UNDER REGULATION 13 (4) OF SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002, AGAINST SHRI RAMRAKH R. BOHRA, MEMBER, THE STOCK EXCHANGE, MUMBAI, (SEBI REGISTRATION NO. INB 010022711) IN THE MATTER OF M/S. AKL SOFT AND INFOSYS LIMITED.

WTM/TCN/ID3/56/08/2007

BACKGROUND

1. M/s. AKL Soft and Infosys Ltd. (hereinafter referred to as "AKL") incorporated as M/s. AKIL Plastics Ltd. on 06.04.95 with the main object of manufacturing plastic components for industrial, commercial and domestic applications. Later, the object of the company was changed to providing education in the field of software, development, marketing of software and other related services vide a resolution dated 05.04.99 and the name was changed to its present name on 01.03.00. The scrip was listed at The Stock Exchange, Mumbai (hereinafter referred to as BSE), The Madras Stock Exchange and The Coimbatore Stock Exchange. The scrip was listed in BSE on 10.07.96.
2. An investigation was conducted into the trading in the scrip of AKL for the period 31.01.03 to 04.04.03 (hereinafter referred to as the "investigation period"). During

the investigation period it was noticed that the scrip had opened at Rs.8.60 on 31.01.03 and closed at Rs.1.80 on 04.04.03, touching an intra-day high of Rs.9.55 on 03.02.03. Apart from this, the scrip had traded in the region of Rs.8-9 till 12.02.03. Out of the 41 days during the period of investigation on which the scrip was traded, the scrip had touched the upper circuit limit on one day and the lower circuit on 32 days.

3. During the period of investigation, M/s. ASK Holdings Pvt. Ltd. (hereinafter referred to as ASK) the client of M/s. Ramrakh R. Bohra (hereinafter referred to as the member or RRB) and Shri Vinod Khetan, client of M/s. Ramaben Samani Finance Pvt. Ltd., had contributed to a substantial volume in the scrip of AKL. ASK had purchased a net of 15,66,001 shares accounting for 30.97% of the total issued share capital of AKL and 79.37% of the total floating stock. Shri Vinod Khetan had sold a total of 15,57,405 shares constituting 30.80% of the total issued share capital of AKL and 78.93% of the total floating stock. It was observed that there was a single continuous buyer and a seller who had purchased and sold large quantities and were connected to each other and there was a low floating stock in the market. It was observed that these clients were reversing their positions in off market deals and were giving legality to their transactions which were in the nature of financial accommodation.
4. It was submitted by the member before the investigation that ASK was a self introduced client and was entertained only because the director of ASK, Shri Ashok Kumar Jain was also a Director in M/s. Hem Securities, another broker at BSE. Orders used to be placed over the telephone and Shri Jain was also allowed to operate the trading terminal No. 13 at RRB's office, since Shri Jain was a known person. It was also submitted that no position limits had been prescribed to ASK and no supervision of the trading of ASK was carried out since the payment and delivery was on time.
5. The observation of the investigation that the scrip of AKL was illiquid during the period under reference and also the attempt by the clients was to create artificial

volumes was agreed to by RRB. When the dubious nature of the transactions was pointed out by BSE, RRB had stopped trading for Shri Jain and also initiated proceedings for cancellation of the affiliation of ASK as a sub-broker.

6. In view of the aforesaid findings of the investigation, it was alleged that the member had failed to exercise due care and diligence in dealing with the client ASK in the scrip of AKL and has also aided and abetted the client in creation of artificial volume in the scrip of AKL. Therefore, the member was alleged to have violated the provisions of Clause A (2), (3) & (4) of the Code of Conduct for Stock Brokers as specified in Schedule II read with Regulation 7 of SEBI (Stock Broker and Sub-brokers) Regulations, 1992 and Regulation 4 (b), (c) & (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995.
7. An Enquiry Officer was appointed by SEBI, vide an order dated 18.09.04, to inquire into the aforesaid violations and recommend appropriate penalty against the member. The Enquiry Officer after inquiring into the violations noticed against the member submitted a report dated 10.03.05 wherein it was concluded as follows:

“I have carefully gone through the submission made by the member. In view of the finding arrived at above, I conclude that the member influenced the price of the scrip of the company and therefore violated Regulation 4 b), (c) & (d) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995.

The member has also violated the code of conduct as prescribed in Clause A (2) of Schedule II read with Regulation 7 of SEBI (Stock Broker and Sub-brokers) Regulations, 1992 as it failed to exercise due skill and care as was expected of it.

The transactions entered into by the member have interfered with the normal price discovery mechanism of the stock exchange in so far as they have created

an artificial market for the scrip. Further, the actions of the said broker have led to a situation which has eroded the credibility and posed a threat to the integrity of the securities market. It is necessary in the interest of the investors and for the safety and integrity of the securities market the persons particularly intermediaries who indulged in such fraudulent and manipulative practices be dealt firmly.”

8. In view of the aforesaid conclusions, the Enquiry Officer recommended a penalty of suspension of certificate of the member for a period of three months.

SHOW CAUSE NOTICE, REPLY AND HEARING

9. After considering the Enquiry Report, a show cause notice dated 22.03.05 was issued to RRB charging it with violating the provisions of Code of Conduct contained in Regulation 7 of SEBI (Stock Broker and Sub-brokers) Regulations, 1992 and Regulation 4 (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995. A copy of the Enquiry Report was also appended to the said show cause notice. It was also mentioned that, if the member had anything to reply to the findings of the Enquiry Report, it may do so within 15 days of the receipt of the notice.
10. RRB submitted its reply to the show cause notice vide a letter dated 07.04.05. The submissions made by RRB in response to the show cause notice are as under:
 - ? The member has denied all the allegations and statements made out in the show cause notice and the annexed enquiry report thereto.
 - ? ASK was a long time client and was dealing in several securities through RRB. Since the transactions were put through the BOLT mechanism of the exchange, it was not possible for RRB to ascertain whether ASK was also putting the counter trades through a different terminal.

- ? All the trades executed by ASK through RRB were duly taken delivery of and the settlement requirements was also duly met with by ASK. Therefore, it was not possible to suspect the nature of transactions put through by the client.
- ? As per the enquiry report, a large part of the transactions put through by RRB were purchases and also the scrip of AKL had witnessed a steep fall during the investigation period. A major purchaser cannot contribute to fall in the price of securities.
- ? The statements made in the enquiry report relating to the nature of transactions (financing transactions to meet the crisis of ASK) and also the understanding among ASK and Shri Vinod Khetan, were not within the knowledge of RRB and none of the documents produced suggested such a knowledge/ involvement.
- ? In respect of the statements reproduced in the enquiry report, whereby the clients i.e., ASK and Shri Vinod Khetan, have submitted that RRB had knowledge of the nature of transactions, a cross examination is requested of these clients to prove the reality.
- ? A penalty of Rs.25,000/- had been imposed by BSE for carrying out transactions on behalf of ASK. Also, the net result of the transactions on behalf of ASK was a huge loss. No legal proceeding was initiated against ASK since RRB hoped to recover some amounts from ASK, in due course.
- ? RRB has acted as any other prudent broker would have acted and had ceased to carry on business with the client once a possibility of irregularity in the client's transactions.
- ? No transactions were prearranged/ synchronized or manipulated and also no intent to manipulate has been attributed to RRB. Therefore, there could be no violation of Clause A(2) of the Code of Conduct for Stock Brokers as specified in

Schedule II read with Regulation 7 of SEBI (Stock Broker and Sub-brokers) Regulations, 1992 and Regulation 4(b), (c) & (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995.

11. RRB was thereafter given an opportunity of appearing before me and making their submissions if any, on 17.07.06. RRB appeared before me on the said date and reiterated their earlier submissions. Pursuant to the hearing, a letter dated 20.07.06 was submitted by RRB enclosing the ledger statement of ASK and other details. Vide the said letter, RRB has submitted that the debit balance of ASK as on 31.03.03 was Rs.1,07,41,412.74. Over the period, some amounts have been recovered and the closing balance (debit) as on 31.03.06 stands at Rs.74,87,334.11.

CONSIDERATION OF ISSUES

12. I have carefully considered the findings brought out in the enquiry report, the replies submitted by RRB in response to the show cause notice and its submissions before me during the personal hearing.
13. The Enquiry Officer in his report dated 10.03.05 has concluded that RRB has violated the provisions of Regulations 4 (b), (c) & (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 and Clause A (2) of Schedule II read with Regulation 7 of SEBI (Stock Broker and Sub-brokers) Regulations, 1992.
14. I have noticed from the investigation that RRB had purchased a total of 15,66,001 shares for ASK over 40 settlements during the investigation period. As has been pointed out, this constitutes about 30.97% of the total issued share capital of AKL and 79.37% of the total floating stock. I have also noticed that the member has submitted that it had no knowledge of any understanding among the clients trading in the scrip of ASK and had never synchronized trades in the scrip. The table showing

the settlement wise dealings in the scrip of AKL by RRB and RSF during the period of investigation is as below -

Sett No.	Total Valid Buy order placed in the system	Total Valid sell orders placed in the system	Total Executed quantity	Buy order placed by the member Ramrakh R Bohra (577)	Sell order placed by the member Ramaben Samani Finance P. Ltd. (101)	Buy Quantity executed in favour of the member Ramrakh R Bohra (577)	Sell Quantity executed in favour of the member Ramaben Samani Finance P. Ltd. (101)
214	51400	58300	51200	0	0	0	0
215	236000	236000	236000	231000	230000	231000	230000
216	0	5500	0	0	0	0	0
217	4000	16500	4000	0	0	0	0
218	104000	105800	104000	100000	100000	100000	100000
219	100000	101300	100000	100000	100000	100000	100000
220	67550	90765	67550	30075	30000	30075	30000
221	105020	105120	105015	100010	100000	100010	100000
222	45000	63260	45000	40000	40000	40000	40000
223	91030	1102030	91030	91010	91000	91010	91000
224	105000	112100	105000	100000	100000	100000	100000
225	25	24485	25	0	0	0	0
226	135000	153805	135000	128985	130000	128985	130000
227	118995	138575	118995	100005	100000	100005	100000
229	66900	91981	66900	30000	30000	30000	30000
230	156001	166491	156001	100000	100000	100000	100000
231	39600	58082	39600	39100	38000	39100	38000
232	2000	58990	2000	0	0	0	0
233	199490	252390	199490	199490	192000	199490	192000
235	101	77000	101	1	0	1	0
236	50	112899	50	0	38000	0	0
237	50	90454	50	0	0	0	0
238	5	111000	5	5	0	5	0
239	177405	256304	177405	177405	177405	177405	177405
240	1050	69899	1050	0	0	0	0
241	40000	248500	40000	0	0	0	0
242	30200	100000	30200	0	0	0	0
244	35050	103550	35050	0	0	0	0
245	100	75000	100	0	0	0	0
246	200	148600	200	0	0	0	0
247	25200	406700	25200	0	0	0	0
248	10	325000	10	0	0	0	0
249	2201	198000	2201	0	0	0	0
250	1	325405	1	0	0	0	0
1	10	325405	10	0	0	0	0
2	2010	325405	2010	0	0	0	0
3	5010	196180	5010	0	0	0	0
4	10	246180	10	0	0	0	0
5	1000	146180	1000	0	0	0	0
6	61180	147180	46180	0	0	0	0
7	82954	45264	45264	0	0	0	0
	2090808	7021579	2037913	1566509	1596304	1566509	1558304

15. The submission of RRB is not acceptable for, the pattern in which these transactions have been entered into, over a prolonged period would have called for some intervention of any prudent market intermediary. As accepted by the member itself at the time of the investigation, the scrip in which Shri Jain of ASK was dealing i.e., AKL was illiquid. An uninterrupted flow of transactions constituting significant volumes of the whole settlement is bound to attract the attention of the broker through whom such transactions have been carried out as stated above. Here, as detailed in the table above, there has been a consistent flow of transactions by ASK in the scrip of AKL starting from settlement No. 214-0203 to settlement No.007-0304, spread over a period of three months.
16. The member seems to have paid no heed to the increasing volumes in illiquid scrip simply because the client was a long time acquaintance of it. Also, as submitted by it, the client had been allowed to enter the trades itself through a terminal at the broker's premises. This is a grossly negligent manner of conducting business by any person; more so, a market intermediary who's every single transaction has huge financial implications to itself and to the counter parties.
17. The member in his submissions before the investigating officer also has accepted that the nature of transactions entered into in the scrip could be for the creation of artificial volumes. In having been a party to the whole scheme of things by allowing uninterrupted flow of transactions through its terminals without any counter checks by a known client, the member can be said to have aided and abetted its client in creating the artificial volumes. A denial by RRB at this stage that it had no knowledge of the synchronization and also it had been only a victim of the scheme drawn out by its client cannot serve as a saving grace to its past acts. I find that such type of synchronized trading which has grossly resulted in the misuse of stock exchange mechanism would not have been possible without the co-operation of the member with the client. Had the member exercised due skill and care, the client would not have succeeded in misusing the stock exchange mechanism for unlawful gains.

18. The member by aiding and abetting its client as specified above has thus violated the provisions of Regulation 4 (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995. An intermediary operating in the market has been entrusted with an onerous task of not only catering to the demands of its clientele but also of maintaining due diligence and care in the performance of its duties to ensure the safety and integrity of the market. It would not be possible to maintain order in a market of such huge proportions but for every individual intermediary exercising what has been prescribed in the Code of Conduct, in its true spirit. Herein, RRB has given a complete go-by to the prescriptions of SEBI relating to the Code of Conduct of a broker. It has not exercised any supervision over the activities of its client and has allowed ASK to enter transactions unabated. This opportunity had been taken advantage of, by the client in creating artificial volumes in the scrip of AKL to finance its crisis. Hence, the submission by the member of lack of knowledge in relation to the transactions entered into by its client being synchronized cannot be accepted. This lapse on the part of the member has to be dealt with appropriately as this constitute a violation of Clause A (2) of the Code of Conduct for stock brokers prescribed in Schedule II read with Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.

19. I note that adjudication proceedings were initiated against RRB for indulging in fraudulent and unfair trade practices and the Adjudicating Officer (AO) vide order dated 11-04-2005 had imposed a penalty of Rs. 75,000/- under Section 15 HA of the SEBI Act, 1992. I further note that RRB vide letter dated 20-05-2005 (enclosing a Demand Draft for Rs. 75,000/-) had paid the said penalty imposed by the AO. The Enquiry Officer has held RRB guilty of violating the Clause A (2) of Schedule II read with Regulation 7 of SEBI (Stock brokers and Sub-brokers) Regulations, 1992 and Regulation 4(b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Practices Relating to the Securities Market) Regulations, 1995. In my view, since the intermediary has paid the fine imposed by the AO for their fraudulent and unfair trade practices and in the circumstances of the case, the penalty of three months would be a bit harsh on it. In the above background, it would suffice to impose penalty suitable

to the gravity of the violation which in the facts and circumstances of the case, in my view one month suspension is justified and appropriate.

ORDER

20. In view of the aforesaid violations found against the member and the mitigating events, I, in exercise of powers conferred upon me under Section 19 of the SEBI Act, 1992 read with Regulation 13 (4) of SEBI (Procedure for Holding Inquiry by an Enquiry Officer and Imposing Penalty) Regulations, 2002 and Regulations 11 and 13 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, I hereby direct that the Certificate of Registration of M/s. Ramrakh R. Bohra, Member, the Stock Exchange, Mumbai (SEBI Registration No. INB 010022711) be suspended for a period of one month. This order shall come into force after the period of three weeks from the date of this order.

Place: Mumbai

Date: 23.08.2007

T. C. Nair

Whole Time Member

Securities and Exchange Board of India