

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V. K. CHOPRA, WHOLE TIME MEMBER

ORDER

{Under Regulation 13(4) SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 against M/s Ventura Securities Ltd in the matter of SMR Universal Softech Ltd.}

1.0 BACKGROUND

- 1.1 SMR Universal Softech Ltd. (hereinafter referred to as "SMR") was incorporated on April 05, 2000. This company was engaged in knowledge management in the area of development of HRD software, software training and HRD consulting. The company came out with its maiden public issue of 45 lacs equity shares of Rs 10 each for cash at par on August 09, 2001. The scrip was listed at Bombay Stock Exchange Ltd. (BSE) on October 29, 2001. The first trade in the scrip took place on April 01, 2002 and on that date, the price of the scrip opened at Rs. 120/- and closed at Rs. 121.35. There was no trading in between April 02, 2002 to May 12, 2002. On May 13, 2002, the price of the scrip reached its highest level of Rs. 135/- and on subsequent trading days the price of the scrip dropped and touched Rs.3.95 on July 31, 2002.
- 1.2 Securities and Exchange Board of India (hereinafter referred to as "SEBI") conducted investigation into the trading of SMR scrip as the scrip witnessed unusual fluctuations in its price. Investigations revealed that a select group of brokers were acting on behalf of select group of clients who have traded substantially in the scrip. M/s Ventura Securities Ltd. (hereinafter referred to as "Noticee"), a broker of BSE was one of those brokers who was alleged to have executed fictitious and synchronised trades for their clients and had violated the provisions of A(2), A(3) and A(4) of the code of conduct as specified in scheduled II of Regulation 7 of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as "Stock Brokers Regulations") and Regulations 4(a), 4(b) and 4(d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as "PFUTP Regulations").

2.0 ENQUIRY PROCEEDINGS

- 2.1 After considering the Investigation Report, SEBI appointed an Enquiry Officer to enquire into the violations allegedly committed by the Noticee under regulation 4(a), 4(b) and 4(d) of PFUTP Regulations and clause A(2), A(3) and A(4) of Code of Conduct as specified under Schedule II of Stock Brokers Regulations.
- 2.2 A show cause notice dated November 19, 2004 was issued to the Noticee which was responded by them vide letter dated December 15, 2004 wherein they have inter alia submitted as under:
- 2.2.1 All the transactions in SMR were purely client transactions and no proprietary trades were executed. In respect of the investment decision behind each transaction, no contribution whatsoever was made by them.
- 2.2.2 The clients were introduced to them in the ordinary course of their business. The clients had submitted the necessary client registration form and executed member client agreement and submitted all necessary documents as required as per SEBI's circular SMD/POLICY/CIR/5-97 dated April 11, 1997.
- 2.2.3 They executed the trades in the scrip on May 13, 2002 and May 14, 2002 on behalf of client Shri Dhaval Shah and the volume in the scrip on May 13, 2002 constitutes 0.49% of the total volume of the Noticee on BSE on that day. Similarly the volume of the client Shri Dhaval Shah in the scrip on May 14, 2002 constitutes a meager 0.52% of the total volume of the Noticee on BSE on that day.
- 2.2.4 The Noticee had undertaken these transactions solely in its capacity of a stock broker. The Noticee was not aware of any connection / relation between its clients and the other brokers or their respective clients. Neither was the Noticee aware of any alleged association / agreement / understanding between its clients and the clients of the other brokers to create false volumes in the scrip or to effect a price fall therein, nor was the Noticee a party to any such alleged association / agreement / understanding.
- 2.2.5 In the screen based trading system on BSE, the identity of the counterparty broker and ultimate clients remains unknown. All the trades were executed in accordance with the rules of the exchange and the Noticee had no interest besides brokerage in the trades.
- 2.2.6 As a measure of their due diligence as a stock broker, they continuously monitor the scrip in which their clients execute trades so as to avoid any deliberate matching or circular trading. Since they were uncomfortable about the scrips in which the clients were dealing, they voluntarily stopped all trading on behalf of Shri Dhaval Shah on July 12, 2002 and Parklight Securities Ltd. on July 09, 2002. In this regard, it is pertinent to note that summons issued by SEBI in connection with the investigations instituted in the scrip was issued much later on February 04, 2003.
- 2.2.7 There is no evidence to establish that the Noticee intentionally entered into any transaction to artificially raise or depress the prices of the scrip or that it was privy to any purported arrangement / understanding between its clients and the other brokers / clients to create volumes and price movements in the scrip during the period.

- 2.3 The Noticee was given opportunity of hearing which was attended by Shri D. P. Singh, Compliance Officer and Authorised Representative of VSL on March 01, 2006 when he reiterated the submission already made in reply to the show cause notice issued by the Enquiry Officer.
- 2.4 After conducting enquiry in accordance with the provisions of the Enquiry Regulations, the Enquiry Officer submitted a report dated March 14, 2006. The Enquiry Officer recommended a minor penalty of "censure" to the Noticee for the violation of clause A(2) of the code of conduct for the Stock Brokers as specified under Schedule II read with Regulation 7 of Stock Brokers Regulations.

3.0 SHOW CAUSE NOTICE & REPLY

- 3.1 Pursuant to the receipt of the Enquiry Report, Show Cause Notice dated April 26, 2006 along with a copy of the Enquiry Report was sent to the Noticee advising it to show cause as to why the action, as recommended by the Enquiry Officer should not be imposed on the Noticee. Noticee submitted its reply dated June 14, 2006 to the said show cause notice wherein they reiterated the submissions already made in their reply to the show cause notice issued by the Enquiry Officer as stated at paragraph no. 2.3 above.

4.0 CONSIDERATION OF ISSUES & FINDINGS

- 4.1 I have carefully examined the findings of investigation report, enquiry report, show cause notice, reply of notice and find that the matter can be decided on merit with the materials on record.
- 4.2 The price of SMR scrip went up from Rs. 120/- on April 1, 2002 to its highest level of Rs. 135/- on May 13, 2002 and on subsequent trading days the price of the scrip dropped and touched Rs.3.95 on July 31, 2002. The post trade data for the period April 1, 2002 to July 31, 2002 revealed that the Noticee had purchased 7,87,025 and sold 7,20,100 shares mainly on behalf of their clients Dhaval Shah and Parklight Securities Ltd.
- 4.3 The Enquiry Officer examined the charges levelled against the Noticee under PFUTP Regulations and Code of Conduct under Stock Brokers Regulations and observed that the charges under Regulation 4(a), 4(b) and 4(d) of PFUTP Regulations are not tenable against the Noticee. The Enquiry Officer found that the clients of the Noticee had executed matching transactions with the clients of other brokers and also reversed their position in the same settlement. Further, one of the brokers was revealing the entire order quantity of its order to the market while the counter party brokers to the trade were not revealing entire quantity of their orders which resulted in execution of multiple trades instead of one single trade. The repetitive instances of execution of single order resulting into multiple trades had given the impression that these brokers had intention to create a false impression of wider participation of investing public in the scrip during the period of investigation. However, the Enquiry Officer after examining all aspects held that there was no concrete evidence on record to point out that Noticee had any relationship with any of the clients. He also observed that the Noticee had voluntarily stopped all trading on behalf of the client Parklight Securities Ltd. and Dhaval Shah on July 09, 2002 and July 12, 2002 respectively since they were uncomfortable about trading in the scrip on behalf of their clients. In view of this, the Enquiry Officer proposed exonerating the Noticee on the charges of PFUTP Regulations. Having considered all the facts and circumstances of the case as also the findings/recommendations of the Enquiry Officer mentioned in the report, I have come to the conclusion that the Enquiry Officer has rightly concluded that the charges under PFUTP Regulations against the Noticee have not been established with reasonably good evidence. Further, viewed from the relevant legal position, I feel that there is no sustainable evidence on record to prove the charges levelled against them under the provisions of PFUTP Regulations.
- 4.4 As regards the violations of code of conduct for stock brokers, Enquiry Officer observed that Parklight Securities Ltd., a group entity of the stock broker Parklight Investment Pvt. Ltd. was one of the brokers who traded substantially in the scrip. The Enquiry Officer found that the clients of VSL, namely Shri. Dhaval V. Shah and Parklight Securities Ltd. have common address i.e. H N House, Near High Court, Railway Crossing, Navarangpura, Ahmedabad. Further, the client registration forms of both clients also bear the same date i.e. April 21, 2001. In these circumstances, how the fact that both clients having common address escaped the scrutiny of the Noticee remains unexplained. The Enquiry Officer also noted that the client registration forms of its clients Shri Dhaval Shah and Parklight Securities Ltd. were incomplete as the address of the introducer and his signature were not mentioned in the form. Further, the information as to whether the said clients were registered with other brokers was also not mentioned in the client registration forms of both clients. This clearly points out the lapse on the part of the Noticee in exercising due diligence before acting on behalf of the said clients. In the light of these findings, it is clearly established that the Noticee failed to exercise due care, skill and diligence in the conduct of their professional responsibility and the same is in violation of clause A(2) of Schedule II read with Regulation 7 of Stock Brokers Regulations. Considering the nature of the lapse, I am of the view that a penalty of 'censure' on the Noticee will suffice.

5.0 ORDER

- 5.1 Therefore, in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act, 1992 read with Regulation 13(4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby impose

a minor penalty of 'censure' on the Noticee, M/s Ventura Securities Ltd (SEBI registration no. INB010760438 and PAN AAACV1361J).

Place: Mumbai
Date: August 29, 2007

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