

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA, MUMBAI

CORAM: Dr. T.C.NAIR, WHOLE TIME MEMBER

**IN THE MATTER OF NARAYAN SECURITIES PVT. LTD., Member, National Stock
Exchange of India Ltd., SEBI Registration No. INB230935437**

IN THE SCRIP OF VATSA MUSIC LTD.

DATE OF HEARING: October 26, 2006

APPEARANCES:

FOR NOTICEE: Shri Narayan Saraf
Shri Ramesh Saraf
Shri Ashvin Saraf

FOR SEBI: Shri P. K. Nagpal, ED
Shri Bibhudutta Samal, Manager
Ms. Kshama Chavan, Legal Officer

ORDER

**UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY
OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002 READ WITH REGULATION 28 (2) OF
SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008.**

1. This order will dispose of the Enquiry Proceedings initiated by Securities and Exchange Board of India (hereinafter referred to as "SEBI") against Narayan Securities Private Ltd. (hereinafter referred to as "NSPL") to enquire into the trading conducted by NSPL in the scrip of Vatsa Music Ltd. (hereinafter referred to as "VML").
2. The shares of VML were listed at National Stock Exchange of India Ltd. (hereinafter referred to as "NSE") and The Bombay Stock Exchange Ltd.

(hereinafter referred to as “BSE”). Between January 7, 1998 and June 30, 1998, substantial price movements were observed in the shares of VML at NSE consequent to which SEBI asked NSE to conduct an investigation in the scrip and submit a report.

3. NSE conducted the investigation and submitted its report to SEBI in September 1998. Based on its findings for the period January 7, 1998 to June 30, 1998, NSE concluded that the spurt in prices was for reasons other than strong fundamentals of the company. During the investigation period, while trading in the scrip of VML was infrequent and negligible, the prices of the scrip showed manifold increase. The trades resulting in the upward price movement were in the nature of cross trades, with majority of the transactions being undertaken by few brokers. NSE also observed that entities allegedly associated with the Vatsa group had dealt in the scrip during the above period.
4. The price volume data for VML at NSE for the relevant investigation period i.e. January 7, 1998 to June 30, 1998 is furnished below:

Date	Opening Price	High Price	Low Price	Closing Price	Traded Quantity
January 7, 1998	440	448	440	448	700
January 8, 1998	485	485	443	443	3100
January 9, 1998	486	486	444	446	5600
January 12, 1998	445.9	452	441	451	8000
January 13, 1998	451	451	445	445	3300
January 14, 1998	448	458	418.5	418.5	1200
January 15, 1998	424	424	424	424	1000
January 16, 1998	424	424	424	424	1000
January 19, 1998	436	439	436	437	5000
January 20, 1998	429	434	410	410	1600

January 22, 1998	451	451	418	418	1600
January 23, 1998	416	459	416	459	600
January 27, 1998	450	500	450	500	1300
January 28, 1998	545	545	545	545	100
January 30, 1998	573	573	573	573	100
February 2, 1998	576	576	576	576	900
February 3, 1998	576	576	530	549.25	5500
February 5, 1998	506	506	506	506	1000
February 6, 1998	556	556	556	556	100
February 9, 1998	605	605	605	605	100
February 10, 1998	602	602	602	602	100
February 17, 1998	602	602	602	602	200
February 24, 1998	604	604	604	604	500
February 25, 1998	647.2	647.2	545	545	5600
March 2, 1998	596	596	596	596	100
March 3, 1998	625	640	625	640	200
March 19, 1998	577	577	577	577	100
April 17, 1998	590	590	590	590	600
April 21, 1998	595	595	595	595	600
April 30, 1998	565	565	565	565	400
May 20, 1998	621	621	621	621	600
May 21, 1998	625	625	625	625	300
June 24, 1998	685	685	660	660	500
June 25, 1998	705	705	705	705	500

It can be observed from the aforesaid trading pattern of the scrip that it was highly illiquid. During the entire investigation period there were three instances wherein there was a gap of nearly one month between two trades in the scrip.

5. While a total 52,100 shares of VML were traded over the entire investigation period, actual trading took place only on 34 days. Accordingly, the average traded

volume per day works out to 1,530 shares. However of these 34 days, on 20 days, less than 1,000 shares were traded in each session. As against this marginal trading, the price of the scrip of VML increased from Rs. 440/- to Rs. 705/- i.e. an increase of 60% in 34 trading days. Furthermore, of these 52,100 shares traded trades in 37,600 shares were executed as cross trades.

6. As mentioned above, during the investigation period, VML was listed both at the BSE and NSE. Typically, for a scrip listed simultaneously on both NSE and BSE, there is a congruence in the trading pattern of the scrip i.e. if there is trading interest in a scrip at NSE, similar trading interest is also reflected in the scrip at BSE. However, in the present case while the scrip of VML reflected high movement on one exchange (i.e. NSE) there was negligible/ no trading on the other exchange (i.e. BSE).
7. The Investigation Report submitted by BSE in October 1998 reflects that for the period under investigation, while there was trading in the shares of VML at NSE, there were no corresponding trades at BSE. Trading in the scrip of VML on BSE took place on July 16 and 17, 1998 at prices significantly lower than those reflected at NSE. Whereas the last traded price at the NSE was Rs.705 on June 25, 1998; the scrip traded at BSE on July 16, 1998 at Rs. 376 and on July 17, 1998 at Rs.379.75. Thus, it was reasonably concluded therein that the prices of VML at NSE were not genuine but set up prices.
8. Vide order dated November 27, 1998 SEBI initiated a formal investigation into the dealings in the scrip of VML. During the investigation, it was found that the four trading members of NSE namely Credential Stock Brokers Ltd., Narayan Securities Pvt. Ltd., Dimensional Securities Pvt. Ltd. and Prabhat Financial Services Ltd. had a cumulative trading volume of 76,800 shares out of the total 1,04,200 shares which accounted for 73.70% of the total trading in the scrip of VML at NSE. It was further found that NSPL, (SEBI Registration No. INB230935437) individually dealt in 16,500 shares out of the aforesaid 76,800 shares which accounted for about

16% of the total trading at NSE. On the basis of the investigation, it was *inter alia* alleged that the scrip of VML was manipulated by these four registered brokers of NSE.

9. On the basis of the findings of the Investigation Report, an Enquiry Officer was appointed under the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as the “Enquiry Regulations”) to enquire into the involvement of NSPL in the alleged manipulation in the scrip of VML and possible violations of SEBI Act, 1992, SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as the “PFUTP Regulations”) and SEBI (Stock Brokers and Sub brokers) Regulations, 1992 (hereinafter referred to as “Stock Broker Regulations.”)
10. Based on the evidence and materials available on record, the Enquiry Officer found NSPL guilty of violating Regulations 4(a), 4(b) and 4(c) of PFUTP Regulations and Clauses A(2) to A(5) of the Code of Conduct for Brokers specified in Schedule II read with Regulation 7 of the Stock Brokers Regulations. On the basis of the aforesaid findings, the Enquiry Officer, vide his report dated February 08, 2005 recommended that the registration of NSPL be suspended for a period of 1 month.
11. Pursuant to the Enquiry Report, a Show Cause Notice under Regulation 13(2) of the Enquiry Regulations was issued to NSPL on February 25, 2005 enclosing therewith a copy of the Enquiry Report. Vide the said Show Cause Notice, NSPL was *inter alia* advised to show cause as to why action, as considered appropriate should not be taken against them.
12. NSPL vide its reply dated April 18, 2005 submitted as under:
 - a) During the relevant period i.e. from January 1, 1998 to June 30, 1998 it was operating 3 terminals at two locations and was executing transactions for and on

behalf of approximately 1,000 clients. Its aggregate volume during the said period was approximately 300 crores. During the said period out of its total 1,000 clients, only 27 clients executed transactions for sale and purchase of VML shares. Such trading in VML constituted only negligible percentage of the total aggregate volume of Rs.300 crores during the relevant period.

- c) All clients who traded in shares of VML during the relevant period were registered share holders and had delivered share certificates along with transfer deeds duly executed by them as holders. Also the entities/ individuals who bought the shares of VML had taken deliveries and to the best of its knowledge go to the shares transferred in their name. Accordingly, all the transactions in the shares of VML during the said period resulted in actual delivery of share.
- d) It had issued contract notes, bills in the matter and as per the procedure prescribed under NSE byelaws and Stock Broker Regulations.
- e) It had not entered into any transaction into the shares of VML with the intention of artificially raising or depressing the prices or to create false and/ or misleading impression of trading or to induce any person to purchase or sale shares of VML.
- f) It had not indulged in any transactions which were not genuine.
- g) The learned Enquiry Officer has based his investigations for a period of six months (from January to June 1998) and not considered the price rise and the volume of the VML scrip before and after the investigation period which otherwise would have changed his recommendation.
- i) The allegations in the Show Cause Notice do not flow out of the factual position and therefore cannot be legally sustained and deserve to be dropped forthwith.

13. An opportunity of personal hearing was granted to NSPL on October 26, 2006 wherein representatives of NSPL made oral as well as written submissions reiterating the earlier submissions made by NSPL.
14. I have carefully considered the findings of the investigation, Enquiry Report, Show Cause Notice, charges levied, replies received, oral as well as written submissions and other relevant material available on record. I note that the main issues for consideration are as follows:
- Whether NSPL has violated the PFUTP Regulations while dealing in the shares of VML during the relevant period? and
 - Whether NSPL violated Code of Conduct specified for Stock Brokers under the Stock Broker Regulations when undertaking the dealings in the shares of VML?
15. I note that during the entire investigation period, four trading members namely Credential Stock Brokers Ltd., Narayan Securities Pvt. Ltd., Dimensional Securities Pvt. Ltd. and Prabhat Financial Services Ltd. had a cumulative trading volume of 76,800 shares out of the total 1,04,200 shares traded which accounted for 73.70% of the total trading in the VML scrip at NSE. It was further found of these 76, 800 shares, NSPL individually dealt in 16,500 shares which accounted for 41.07% of the total trading at NSE. The details of trading are given below:

Sr. No.	Trading member name	Buy Qty.	Sell Qty.	Gross Qty.	Net Qty.	% of total trading at NSE
1.	Credential Stock Brokers Ltd.	21400	21400	42800	0	41.07
2.	Narayan Securities P. Ltd.	8700	7800	16500	900	15.83
3.	Dimensional Securities P. Ltd.	5600	5600	11200	0	10.75
4.	Prabaht Fin. Services Ltd.	4100	2200	6300	1900	6.05
	Total			76800		73.70%

16. I note that during the relevant period NSPL purchased 8,700 shares and sold 7,800 shares resulting in net purchases of 900 shares of VML constituting 16% of the total deliveries in the shares of VML. All the trades of the member were executed in Settlement No.1998001 of NSE.

17. I find that out of 14 trades executed by the member, 12 were in the nature of cross trades executed on behalf of its clients. The details of cross trades executed by NSPL are given in the table below:

Date	Trade Time	Trade No	Price in Rs	Qty	Buy Member Name	Buy Client Code	Buy Order Time	Sell Member Name	Sell Client Code	Sale Order Time	Time Difference Bet Buy and Sale Orders
9-Jan-98	14:20:59	9801090153304	444	200	Narayan Securities	CKE01	14:20:59	Narayan Securities	CRL03	14:20:41	0:00:18
9-Jan-98	14:20:59	9801090153305	444.9	200	Narayan Securities	CKE01	14:20:59	Narayan Securities	CSJ05	14:20:15	0:00:44
9-Jan-98	14:24:02	9801090154999	450.25	1000	Narayan Securities	CMH01	14:23:26	Narayan Securities	CCU02	14:24:02	0:00:36
9-Jan-98	14:24:28	9801090155197	450.25	200	Narayan Securities	CMH01	14:23:26	Narayan Securities	CCU01	14:24:27	0:01:01
9-Jan-98	14:39:01	9801090160063	446	1000	Narayan Securities	CMH01	14:38:36	Narayan Securities	CCU02	14:39:01	0:00:25
12-Jan-98	12:25:45	9801120075163	445.9	500	Narayan Securities	CMH01	12:25:45	Narayan Securities	CMA10	12:16:18	0:09:27
12-Jan-98	12:25:45	9801120075164	447.9	500	Narayan Securities	CMH01	12:25:45	Narayan Securities	CMA10	12:16:40	0:09:05
12-Jan-98	12:25:45	9801120075165	448.25	500	Narayan Securities	CMH01	12:25:45	Narayan Securities	CMA10	12:16:54	0:08:51
12-Jan-98	13:34:20	9801120101173	444	600	Narayan Securities	CMH01	13:29:49	Narayan Securities	CSK12	13:31:39	0:01:50
12-Jan-98	13:38:18	9801120107236	445	1000	Narayan Securities	CMH01	13:38:17	Narayan Securities	CCU02	13:36:31	0:01:46
13-Jan-98	13:10:30	9801130096875	446	1000	Narayan Securities	CMH01	13:10:30	Narayan Securities	CCU01	13:10:07	0:00:23
13-Jan-98	13:52:36	9801130107279	446	1000	Narayan Securities	CMH01	13:52:01	Narayan Securities	CCU01	13:50:51	0:01:10

18. It can be seen from the table above that on January 9, 1998 NSPL entered into five cross trades and on January 12, 1998 again it entered into five cross trades. From the above transactions it can be seen that there is negligible time difference between the placement of the buy and sell orders. The buy and sell quantities in all the trades are identical, including the price quoted by brokers of both the parties. This leads to a reasonable conclusion that the buy and sell orders were synchronized.

19. Further, during this period, the price of the scrip moved from an opening price of Rs.440 on January 7, 1998 to a high of Rs.486 on January 09, 1998. I find that this price increase is mainly due to the buying pressure created by the NSPL and other members.
20. In a statement dated April 5, 1999 Mr. Ramesh Saraf, Managing Director of NSPL admitted that NSPL entered into structured transactions for and on behalf of their clients. Investigations also revealed that the clients of NSPL were acting in concert and had dealt only in the scrip of VML during the relevant period.
21. The summary of the cross trades indulged into by NSPL and its contribution to market volume is shown in the table below:

Date	Total Traded Quantity in the Market	Volume Created by NSPL through Cross Trades	Cross Trades as % of Market Volume
January 9, 1998	5600	2600	46.42%
January 12, 1998	8000	3100	38.75%
January 13, 1998	3300	2000	60.60%

22. The most significant buy clients of the member were M/s Moon Holdings and Credit Ltd. (hereinafter referred to as “Moon”) and Ketaki Estates and Finance Ltd. (hereinafter referred to as “Ketaki”). Their trading is summarized in the table below:

Name of Client	Buy	Sell	Net
Moon Holdings & Credits Ltd.	8,300	100	8,200
Ketaki Estates & Finance Ltd.	400	0	400

23. I note that Moon had purchased 8,300 shares and sold 100 shares resulting in net purchase of 8,200 shares. All the trades were executed in Settlement No. 1. The shares purchased by Moon constitute approximately 30% of the total shares of VML purchased in Settlement No. 1.

24. According to the statement dated April 5, 1999 of Shri Ramesh Saraf, Managing Director of Narayan, Moon was introduced to NSPL by Shri Vinay Garg residing at 38/C-9, Sector-7, Rohini, Delhi. Shri Saraf further elaborated in his statement that Moon had dealt with them only in January 1998 and only in the shares of VML.
25. Shri Vinay Garg in his statement dated October 22, 1999 denied having introduced Moon to NSPL and said that Shri Sanjeev and Shri Sandeep Bansal, who had dealt with NSPL earlier might have furnished his name and address as introducer. He stated that he was employed with Shri Ashok Agarwal and his brothers Shri Sanjiv Bansal and Shri Sandeep Bansal. Shri Garg had earlier represented New Age Fincorp (I) Ltd., an entity belonging to Shri Sandeep Bansal and Shri Sanjeev Bansal before SEBI in connection with certain investigations into the dealings in shares of Excel Software Ltd.
26. Moon came out with a Public Issue in June 1997. As per its prospectus, its Registered Office was at B-5, 2nd Floor, Tagore Market, Kirti Nagar, New Delhi-110 015. Enquiry letters sent at this address were returned undelivered and even personal visits did not yield any results. The address of Moon as provided by NSPL is 10, Community Centre, East of Kailash, New Delhi. On a personal visit, these premises were found to be occupied by M/s Ambience, a reputed advertising company. Enquiries revealed that the premises were earlier occupied by SRG, a fact indicated by the signboard of SRG hanging outside the premises.
27. Enquiries with M/s Doogar & Associates Ltd. (hereinafter "Doogar and Associates"), Lead Manager to the Issue of Moon revealed that Moon had changed its name to Big Star Films Ltd. and its Registered Office to AB-4, Safdarjung Enclave, New Delhi-110 029. A communication dated February 23, 1999 was filed by Moon/Big Star Films with the Delhi Stock Exchange stating that they have appointed SRG, an entity under the direct control of Shri Ashok Agarwal and Shri Sandeep Bansal as their Share Transfer Agent. According to this communication, the Registered Office

of Big Star Films is at 201, Neel Kanth Place, 190-191, Sant Nagar, East of Kailash, New Delhi 110065.

28. During the course of investigations, this address was revealed as being occupied by R. Dhariwal & Associates, Chartered Accountants (hereinafter "Dhariwal"). Shri Sunil Tripathi, an employee of Dhariwal in his statement dated July 13, 1999 stated that Big Star Films was using their address for correspondence purposes. He further stated that Shri Ravi Dhariwal, proprietor, Dhariwal, at the request of Shri Brahambhatt, his neighbour, had allowed the use of their office address for correspondence purposes of Vatsa Healthcare Ltd., Vatsa World Ltd. and Big Star Films. It is pertinent to note that Shri Brahambhatt is the brother-in-law of Shri Pradeep Vakil, Director, Vatsa Group.
29. Initially, all the correspondence was directly sent to Shri Pradeep Vakil at his Mumbai office. Around, January 1999, Shri Ravi Dhariwal was advised by Shri Pradeep Vakil that Shri Sohit Agarwal, Shri Ashok Agarwal or Shri Shyam Agarwal would be receiving the correspondences on his behalf. This arrangement continued till April-May, 1999.
30. Shri Ramesh Saraf, in his statement dated April 5, 1999 also stated that Shri Sohit Agarwal was the person who used to placed orders on behalf of Moon. Shri Sohit Agarwal was also mentioned as being connected with Moon/Big Star Films by Shri Ramesh Saraf.
31. Shri Sohit Agarwal in his statement mentioned that he is associated with M/s Rajesh Kukreja & Associates (Chartered Accountants and auditors of M/s SRG Infotech) and denied any association with Moon or placing any orders of VML for it. While explaining his relationship with various entities/ individuals i.e. Shri Ashok Agarwal, M/s New Age Shares & Stocks Brokers, Shri Sandeep Bansal, Shri Sanjiv Bansal, he stated that he is a retainer with M/s New Age Shares at a fee of Rs.6,500/- p.m. for various services of group companies/ associates of Bansal Brothers. He further

stated that he had heard about M/s Ravi Dhaliwal, Shri Sunil Tripathi, Moon, Ketaki, M/s R.K. Modi and M/s Chirau Finance Ltd. He also stated that Shri Ravi Arora was working in the advertising department of M/s Devrah Communications Ltd (owned by Shri Ashok Agarwal and Sandeep Bansal). It is pertinent to mention that Moon was introduced to Vijaya Bank, Barakhamba Road, New Delhi by Shri Ravi Dhaliwal.

32. Initially Shri Sohit Agarwal denied any association with Moon or placing any orders in VML scrip on its behalf. But when confronted with the statement of Shri Sunil Tripathi, employee of Dhariwal, he stated that he used to contact Shri Sunil Tripathi at the behest of Shri Sandeep and Shri Sanjeev Bansal without having any idea as to nature of the correspondence being exchanged.
33. Moon maintained its bank account with Vijaya Bank, Barakhamba Road, New Delhi where it was introduced by Shri Ravi Arora. An examination of bank accounts of Moon revealed that substantial funds were received from and transferred to entities connected to SRG and its directors. The company has since been declared as vanishing company.
34. It can thus be reasonably concluded that Moon acted in connivance with entities connected to SRG and its directors made substantial purchases of the shares of VML creating an artificial market for the scrip and had the effect of increasing the price of the scrip.
35. Now I come to the details pertaining to the other client namely Ketaki. NSPL had purchased 400 shares of VML on behalf of Ketaki. The office address of Ketaki was shown as C-3, Amar Colony Market, Lajpat Nagar-IV, New Delhi and the contact person was Shri R.K. Modi.
36. The office of Ketaki was visited on April 6, 1999 and found occupied by Anirudha & Associates, Chartered Accountants managed by Shri Anirudh Kumar. Vide letter dated April 6, 1999 Shri Anirudh Kumar denied that Ketaki operated from his

premises but stated that some correspondences in the name of Ketaki were received, but returned undelivered.

37. Shri R.K. Modi, director, Ketaki in his statement dated April 4, 1999 stated the company came out with a Public Issue in 1985 and its shares were listed on BSE. He further stated that the corporate office of Ketaki was at the above mentioned address and that BSE had been informed accordingly. According to Shri Modi, the office of Shri Anirudh Kumar was used to receive the correspondences on behalf of Ketaki and these were later forwarded to him at his residence. On further questioning, he stated that when Ketaki required an office at Mumbai, he was advised by Shri Ashok Agarwal to show the office address as A-19, Noble Chambers, Fort, Mumbai. This address is same as the known address of Vatsa Corporation Ltd.

38. A statement of Shri Anirudh Kumar was recorded on July 8, 1999, as Ketaki had shown its address at C-3, Amar Colony, Lajpat Nagar-IV, New Delhi for its correspondences. Shri Anirudh Kumar stated that the said office belonged to M/s. AGM Management Services Ltd., a company in which he was director and he had no relationship with Ketaki. He also said that he had never met Shri R.K. Modi, but had heard of him from Shri Ashok Agarwal, who was his neighbour between 1990 and 1994. When Shri Anirudh Kumar was confronted with the statement of Shri R.K. Modi, he denied that he had allowed Ketaki to use his office.

39. Shri R.K. Modi also stated that the bank account of Ketaki was maintained at Vijaya Bank. Perusal of the bank account indicates that there were number of transfer entries in/from two accounts of Sugam Share Shoppee and New Age Shares and Stock Brokers maintained at the same bank.

40. Sugam Share Shoppe and New Age are entities under the direct control of Shri Ashok Agarwal and Shri Sandeep and Sanjeev Bansal. Further, the perusal of the bank account also revealed that there were many instances of funds transfer from

various current accounts belonging to Shri Sandeep and Sanjeev Bansal and their associates or operated by their employees.

41. The premises of Sugam Share Shoppee was visited on August 1, 1999. The premises was owned and occupied by Shri Abhijit Nandi. Shri Nandi denied that any company bearing the name Sugam ever operated from his premises. He, however, stated that Shri Vijay Pal Shukla was his tenant, who works as a peon in a company dealing in shares at Bengali Market, New Delhi. An earlier informal enquiry with Shri Bijender, peon at the office of Shri Ashok Agarwal on July 30, 1999 revealed that Shri Vijay Pal Shukla was another peon working there.
42. The office of Sugam was again visited on August 28, 1999 when Shri Vijay Pal Shukla was available. He stated that he is working as a peon at New Age Shares & Stock Brokers Ltd. for last three years at a remuneration of Rs.2, 500/- p.m. along with scooter. The registration papers of the vehicle, registered in the name of SRG, were found in his possession. He confirmed that he is director of Sugam and he did all the acts/ deeds at the behest of Shri Ashok Agarwal. All the papers pertaining to Sugam including the chequebooks were in possession of Shri Ashok Agarwal.
43. A statement of Shri Ashok Agarwal was recorded on September 29, 1999 wherein he acknowledged that Shri Vijay Pal Shukla was working with his brother Shri Sanjeev Bansal. Moreover, it was found that Shri Sandeep Bansal introduced Sugam to Vijaya Bank, Barakhamba Road. It thus emerged that Sugam was acting in concert with SRG and entities connected to SRG and its directors.
44. A combined reading of the above factual matrix indicates that SRG and its director played a key role in manipulating the market in the scrip of VML. It was also brought out that the substantial purchases were done in the scrip of VML, an otherwise illiquid scrip by the above entities and their associates with a view to create artificial trading and volume in the scrip and inducing the public to deal in the scrip.

45. I am therefore inclined to agree with the Enquiry Office that NSPL dealt in the scrip of VML for and on behalf of its clients without following the basic procedures of entering into agreement with these clients, collecting margins etc. I also note that the member purely relied on the fact that these clients were introduced to them by entities/directors linked to the SRG group and therefore failed to comply with basic regulatory requirements as mentioned above. Thus, the member was linked to SRG and its director and it has aided and abetted these clients as regards their trading in the scrip of VML.

46. I observe that one of the contentions of the member is that it had acted bona fide for and on behalf of its clients and entered into transactions for sale and purchase of shares of VML within the price range under the circuit filter and the sale and purchase transactions were confirmed by the NEAT systems automatically wherein it was not aware of the identity of counter broker. I am of the view that with prior understanding between the clients and the member, these types of trades are possible on the NEAT system. The order log revealed that the buy and sell orders of these cross trades were thinly spaced suggesting that they are synchronized.

47. I observed that Hon'ble SAT in the matter of **Ketan Parekh Vs SEBI** 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.”

48. The other major contention of the broker is that the movement of price of shares of VML from Rs.440/- in the month of January 1998 to Rs700/- in the month of June 1998 was not considered as an abnormal fluctuation. On this count of the member, I find that the trading pattern of the scrip revealed that total of 52,100 shares of VML were traded over a period of 34 days. During this period there was a rise of about 60% in the prices of the scrip. This rise in the prices was jacked up and was without the support of strong fundamentals of the company. The prices were hiked artificially by executing the cross trades and was not through the price discovery mechanism. I therefore, disagree with the member that the increase in the prices was normal.

49. In view of the foregoing findings and observations, I find that the trading by the member in the scrip of VML has generated substantial volumes and created artificial market for the scrip. Further, the cross trades executed by NSPL at prices already determined by other brokers in VML had the effect of creating a false or misleading appearance of trading in the scrip and also sustaining artificially high prices in the scrip. Thus, by entering into such fictitious trades, the Broker created a misleading appearance of trading in the shares of VML. I find that the Broker had indulged in manipulative trading in the scrip of VML violating the provisions of regulation 4 (a), (b) and (c) of the PFUTP Regulations.

50. I find that, the trades of the member 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 Broker, 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 the interest of genuine investors.

51. The person and entities that operate in the market are required to maintain high standards of integrity, promptitude and fairness in the conduct of the business dealings so that there would be fairplay in the market. From the facts detailed above, it is established that NSPL have not carried out their business operations in accordance with the provisions of law and that it indulge in the manipulation of the scrip of VML while acting in concert with other entities. Further, the trades were executed without obtaining the necessary requirement like client registration form. In terms of the provisions of the Clauses A (2), (3), (4) and (5) 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.

52. I find that one of the conditions of the grant of certificate of registration to a broker in terms of Section 12(1) of the SEBI Act, 1992 read with Broker Rules and Regulations is that the broker is required to abide by the Code of Conduct as specified under Schedule II of the Regulation 7 of the Broker Regulations. Clauses A(3) and A(4) read with the aforesaid PFUTP Regulations clearly list out the activities that a broker should not undertake at all. It clearly states that a stock broker shall not create a false market or enter into manipulative, fraudulent or deceptive transactions, either singly or in concert with others which would be

detrimental to investors' interest or interfere with the smooth functioning of the market. Therefore, while conducting their business dealings irrespective of their actions a stock broker as an intermediary is required to abide by certain rules, regulations prescribed by SEBI from time to time. If an intermediary operating in the capital market, itself starts functioning in an dubious manner, which affects the normal functioning of the market and distorts the market equilibrium, the same warrants action under the Rules/Regulations governing such an entity.

53. In view of the aforesaid and in the facts and circumstances of the matter, I find that the Broker has violated Regulation 4(a), (b) and (c) of SEBI (Prohibition Of Fraudulent And Unfair Trade Practices Relating To Securities Market) Regulations, 1995 and Clauses A (2), (3), (4) & (5) of the Code of Conduct as specified in Schedule II of the Regulation 7 of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992. The aforesaid violations committed by the broker calls for a penalty and considering the facts and circumstances of the case I, find that imposing a penalty of suspension as ordered herein under would be appropriate.

54. In view of the foregoing and in exercise of the powers conferred under Section 19 of SEBI Act, 1992 read with Regulation 13(4) of Enquiry Regulations, 2002 and Regulation 28(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, I hereby impose a penalty of suspension of the certificate of registration of NSPL having Registration No. INB230935437 for a period of one month.

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

Date: 13.01.09

Place: MUMBAI

T. C. NAIR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA