

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: Dr. T.C.NAIR, WHOLE TIME MEMBER**

ORDER

UNDER REGULATION 28(2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 IN THE MATTER OF LATIN MANHARLAL SECURITIES PVT. LTD. MEMBER, BOMBAY STOCK EXCHANGE, SEBI REGN. NO INB 011072056 IN THE SCRIP OF FORTUNE INFORMATICS LTD.

- 1.1 Securities and Exchange Board of India (SEBI) had conducted investigations into the dealings in the scrip of Fortune Informatics Ltd (hereinafter referred as 'FIL') for the period from October 01,1999 to July 31, 2000 on Hyderabad Stock Exchange (hereinafter referred to as "HSE").
- 1.2 During the investigations, it was observed that the price in the scrip of FIL increased from Rs. 64 in October 1999 to Rs.106 in December 1999 and from December 06, 1999 it moved sharply and reached Rs. 654.92 on January 05, 2000 and went up to Rs 665 on February 11, 2000. Subsequently it came down to Rs. 55.75 on July 31, 2000.
- 1.3 It was alleged that M/s. Latin Manharlal Securities Pvt. Ltd. (hereinafter referred to as "LMS"), member of the Bombay Stock Exchange Ltd. (hereinafter referred to as "BSE") traded through M/s Y.G. Rajaram, (hereinafter referred to as "Rajaram") member of HSE on a principal to principal basis and not as a sub broker without having a certificate of registration to act as sub broker to Rajaram for the trades which is in violation of SEBI Circular SMD/Policy/Cir-3/98 dated January 16, 1998 read with Section 12(1) of the SEBI Act, 1992, Rule 3 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.
- 2.1 In view of the above findings of the investigation, an Enquiry Officer was appointed vide Order dated September 19, 2005, to conduct enquiry in respect of the violations / contraventions alleged to have been committed by Latin Manharlal Securities Pvt. Ltd. The enquiry

officer conducted enquiry in terms of the then SEBI (Procedure for Holding Enquiry by the Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as “Enquiry Regulations”) and submitted his report dated December 27, 2005 recommending a minor penalty of ‘Censure’ to LMS.

- 3.1 A copy of the enquiry report along with show cause notice dated January 4, 2006 and February 20, 2006 was forwarded to LMS in terms of Regulation 13 (2) of the Enquiry Regulations advising it to show cause as to why appropriate penalty including penalty as recommended by the Enquiry Officer should not be imposed on it. However they did not reply to the said show cause notice.
- 3.2 An opportunity of personal hearing was granted before me on September 1, 2008, wherein S. H. Merchant, Advocate, M&M Legal Venture, Latin Manharlal, Director, Latin Manharlal Securities Pvt. Ltd., Sanjay Mehta, Authority Signatory, Latin Manharlal had appeared before me.
- 4.1 I have carefully considered the enquiry report and the show cause notice issued to LMS. I note that though the Enquiry Regulations were repealed with effect from the notification of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, anything done and any action taken under the said enquiry regulations shall be deemed to have been done or taken or commenced under the corresponding provisions of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008. In view of the above, my findings are as under:
- 4.2 I note that the price of FIL scrip showed fluctuations during the period of investigation. During the investigation period, LMS traded 56,000 shares of FIL on HSE for its clients through HSE member Rajaram as under:

Date	Settlement No.	Buy	Sell
16/11/1999-22/11/1999	35	33000	-
23/11/1999-29/11/1999	36	17000	-
30/11/1999-06/12/1999	37	5000	1000
Total		55000	1000

- 4.3 I note that LMS who is a member of BSE acted as a sub broker to Rajaram, a member of HSE without obtaining certificate of registration. LMS has contended that these trades / transactions were done on principal to principal basis for their clients on special delivery basis as per the provisions of the Bye Laws of BSE.
- 4.4 I note that Shri Hitesh P Shah, Director of LMS has admitted in the statement before the investigating authority that the trades in the scrip of FIL through YG Rajaram were done for their clients. LMS has accepted that the impugned trades were for its clients and stated that they had done the transactions under reference on special delivery basis as per the provisions of bye-laws of BSE and therefore it denied that the impugned trades were done on principal to principal basis.
- 4.5 The SEBI circular no. SMD/Policy/Cir-3/98 dated January 16, 1998 does not prohibit LMS from trading for its clients with HSE member Y G Rajaram, provided LMS is registered as a sub broker to Y G Rajaram. From the aforesaid circular, it is clear that if LMS defaulted to its client when trading on HSE through Rajaram, the clients of LMS would neither have recourse to HSE as LMS is not a member of HSE nor they will have recourse to BSE as the trades do not pertain to BSE. In order to protect the interest of investors, SEBI came out with the above circular. The Enquiry Officer has found that LMS was not registered as a sub broker to Rajaram while executing the said trades during the investigation period. Further the reference to the Bye Law No. 221 of BSE by LMS is of no relevance as the said bye law deals with a different situation, i.e. trading on principal to principal basis where no investor/client is involved. The present proceedings are on different footings i.e. dealing of LMS for its client with the member of other exchange.
- 4.6 I note that principal to principal trades entails that the contract notes in Form B to be issued in terms of SEBI Circular SMD (B)/104/22775/93 dated October 29, 1993. If the impugned trades were indeed on principal to principal basis, then LMS could have produced copies of the Form B contract notes in support of its contention which has not been so. Therefore the contention of LMS that Bye Law No. 221 of BSE allows its members to trade with the

members of other stock exchange on principal to principal basis is not applicable in the instant case.

- 4.7 From the above, I agree with the findings of the Enquiry Officer that LMS while trading on behalf of its clients through the member of HSE, Shri Y. G. Rajaram violated SEBI Circular No. SMD/Policy/Cir-3/98 dated January 16, 1998 read with section 12(1) of SEBI Act, 1992 and Rule 3 of SEBI (Stock Brokers and Sub Brokers) Rules, 1992. Having regard to the nature and gravity of the charges established and the facts and circumstances of the case, I am of the considered view that ends of justice will be met by imposing a penalty of Censure to Latin Manharlal Securities Private Limited.
- 5.1 Therefore, in exercise of the powers conferred upon me by virtue of Section 19, read with Regulation 28(2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, I hereby 'Censure' M/s Latin Manharlal Securities Pvt Ltd., SEBI Registration No. 011072056 and PAN No. AAACL2767L to the effect that M/s. Latin Manharlal Securities Pvt. Ltd. should be careful in future and exercise due care and diligence in the conduct of its affairs as a capital market intermediary. I also direct Latin Manharlal Securities Pvt. Ltd. to note that any instances of violation or non-compliance with the SEBI Act, Rules and Regulations in future shall be dealt with stringently.

DATE: 09.01.2009

PLACE:MUMBAI

**T.C.NAIR
WHOLE TIME MEMBER**

SECURITIES AND EXCHANGE BOARD OF INDIA