

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

**UNDER REGULATION 28(2) OF THE SECURITIES AND EXCHANGE
BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 IN
THE MATTER OF NARENDRA C SHAH, MEMBER CALCUTTA
STOCK EXCHANGE LIMITED, SEBI REGN. NO INB 030556410 IN
THE SCRIP OF FORTUNE INFORMATICS LIMITED**

- 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. The shares of FIL were listed on Hyderabad Stock Exchange (hereinafter referred to as "HSE") and Calcutta Stock Exchange (hereinafter referred to as "CSE").
- 1.2 During the investigations, it was found 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 Shri Narendra C Shah. (hereinafter referred to as "Narendra Shah"), member of Calcutta Stock Exchange Ltd. (hereinafter referred to as "CSE") had executed transactions at HSE through Kakani Securities Limited (hereinafter referred to as "KSL") member of HSE in the scrip of FIL on behalf of its clients. It was alleged that Narendra Shah traded 18,300 shares of FIL at HSE through KSL. It was also alleged that Narendra Shah did not have certificate of registration to act as sub broker to KSL for the aforesaid 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 Broker and Sub Broker) Regulations, 1992.
- 2.1 On the basis of findings of investigation, an Enquiry Officer was appointed, vide order dated September 19, 2005 under the then SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as "the Enquiry

Regulations”) to enquire into the violations/ contraventions alleged to have been committed by Narendra Shah. The Enquiry Officer conducted enquiry in terms of the Enquiry Regulations and found that Narendra Shah acted as an unregistered sub broker 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 the SEBI (Stock Broker and Sub Broker) Regulations, 1992. On completion of enquiry, the Enquiry Officer submitted his report dated December 27, 2005 recommending a minor penalty of censure to Narendra Shah.

- 3.1 A copy of the enquiry report along with show cause notice dated January 4, 2006 was forwarded to Narendra Shah 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. Narendra Shah replied to the show cause notice vide their letter dated nil, received by SEBI on February 27, 2006 stating that a penalty of censure may not be recommended in his case.
- 3.2 An opportunity of personal hearing was granted before me on September 1, 2008. However no one attended the hearing on behalf of Narendra Shah.
- 4.1 I have carefully considered the Enquiry Report, the show cause notice issued to Narendra Shah and the submissions of Narendra Shah. 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, the issue that arises for examination is whether Narendra Shah acted as a unregistered sub broker while dealing in the scrip of FIL on behalf their clients during the investigation period. My findings are as under:
- 4.2 It is alleged that Narendra Shah has acted as unregistered sub broker to KSL while executing the aforesaid trades in the scrip of

FIL. I note that SEBI Circular dated January 16, 1998 mandated the members of one exchange for dealing through members of another exchange to have necessarily register themselves as sub brokers of the other member. This circular was issued to provide a means of redressal in case of default when the member of one exchange traded through the member of other exchange. Such default jeopardizes the interest of the clients as they do not have any legal recourse to the exchange, as the transactions occur on the other exchange in which the client's broker is not a member. In other words, if Narendra Shah defaulted to his client when trading on HSE through KSL, Narendra Shah's client would neither have recourse to HSE as Narendra Shah is not a member of HSE, nor will they have recourse to CSE, as the trades do not pertain to CSE.

4.3 I note that Narendra Shah has not disputed that he traded 18,300 shares of FIL for his clients at HSE through HSE member KSL without having registration as a sub broker. In view of the above, I agree with the findings of Enquiry Officer and hold Narendra Shah guilty of violating the provisions of the aforesaid circular read with section 12(1) of the SEBI Act, 1992, Rule 3 of the SEBI (Stock Broker and Sub Broker) Regulations, 1992. Considering facts and circumstances of the case, imposition of penalty of censure would be adequate to meet the ends of justice.

5.1 Therefore, in exercise of the powers conferred upon me by virtue of Section 19, read with Regulation 28(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, I hereby 'Censure' Shri Narendra C Shah, SEBI Registration no 030556410, to the effect that he 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 Shri Narendra C Shah, SEBI Registration No. INB 030556410 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**

