

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

IN THE MATTER OF SANCHIT FINANCIAL AND MANAGEMENT SERVICES LTD, MEMBER, NATIONAL STOCK EXCHANGE OF INDIA LTD. SEBI REGISTRATION NO. INB 230803938 IN THE SCRIP OF EIDER INFOTECH LTD.

Date of hearing: August 24, 2007

Appearances:

For Noticees: Shri Harsh Agrawal, Director

For SEBI : Shri P.K.Bindlish, Chief General Manager
Shri Siva Govindo Patra, Manager
Ms. Kshama Chavan, Legal Officer

ORDER

UNDER REGULATION 28(2) OF SEBI (INTERMEDIARIES) REGULATIONS, 2008.

- 1.1 Eider Infotech Ltd. (hereinafter referred to as "EIL") was incorporated in 1990. The shares of EIL were listed for trading at National Stock Exchange of India Limited (hereinafter referred to as "NSE"), The Bombay Stock Exchange Ltd (hereinafter referred to as "BSE"), Ludhiana Stock Exchange (Regional) (hereinafter referred to as "LSE"), Ahmedabad Stock Exchange (hereinafter referred to as "ASE"), Delhi Stock Exchange (hereinafter referred to as "DSE") and Calcutta Stock Exchange (hereinafter referred to as "CSE") at the time of investigation.

- 1.2 Securities and Exchange Board of India (hereinafter referred to as “SEBI”) had conducted an investigation for the period December 1999 to March 2000(period I) and April 2000 to August 2000(period II) [both the periods hereinafter referred to as “the relevant period”) into the buying /selling/ dealing in the scrip of EIL. Investigation revealed that trading in the scrip of EIL was not very active at both BSE and NSE during the relevant period. It was found that only 200 shares at BSE and 1,800 shares at NSE were traded during the period January 1998 to August 1999. During September 1999 to March 2000, 6,500 shares and 3,04,200 shares were traded at BSE and NSE respectively. During September 2000 and March 2001 the trading at BSE was nil whereas 26,295 shares were traded at NSE.
- 1.3 Investigation further revealed that during the relevant period, on November 24, 1999, the closing price of EIL at NSE was Rs.32, which touched a high of Rs.292 by the end of the first week of January 2000 and came down to Rs. 228 by second week of January 2000. By 11th February 2000, the price reached its highest of Rs.800. Correspondingly volumes had gone up in November 1999 from average volume of 490 shares to 4,030 shares in January 2000. Volumes started to decrease in March 2000. Further, during period II, around 12thApril 2000 when the scrip was trading at about Rs. 500, the scrip was suspended by NSE till 26th April 2000 due to non compliance of listing agreement.
- 1.4 It was further found that during the relevant period of investigation, M/s. Eider Infotech Ltd. and their associates/group companies played

a major role in the price movement. From the trading records and bank records, it was found that EIL and its group companies directly funded the brokers and other entities who had significantly traded in the scrip during the relevant period. The bank records, revealed the flow of funds on a continuous basis from group or associate company of EIL to the accounts of brokers/sub-brokers etc.

- 1.5 It was alleged that Sanchit Financial & Management Services Ltd. (hereinafter referred to as "Sanchit") had executed certain transactions in the scrip of EIL during the period January 07, 2000 to January 18, 2000 wherein M/s Share Plaza, a sub-broker registered with NAM Securities Ltd. (NAM) was a common client who had contributed to substantial volume in the scrip of EIL. It was alleged that the aforesaid transaction resulted in price manipulation thereby violating the provisions of Regulation 4 (a),(b) and (d) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 1995 (hereinafter referred to as the "PFUTP" Regulations) and have acted in violation of A (1),(2),(3) and (5) of the Code of Conduct as specified in schedule II read with Regulation 7 of the Securities and Exchange Board of India (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as "Broker Regulations"). It was also alleged that Sanchit had dealt with unregistered sub-broker Share Plaza which is in violation of SEBI Circular no. SMD/POLICY/CIR 3/97 dated March 31, 1997 (hereinafter referred to as the "SEBI Circular").

- 2.1 In view of the above findings of investigation, SEBI vide order dated July 2, 2002 appointed Enquiry Officer to examine the violations / contraventions alleged to have been committed by Sanchit. The Enquiry Officer conducted the enquiry in terms of SEBI (Procedure for Holding Enquiry by the Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as the "Enquiry Regulations"). The Enquiry Officer submitted his report dated November 3, 2003 and found that the transactions between NAM and Sanchit were synchronized trades wherein the price, quantity and time of the orders were matched. Further, it was found that Share Plaza who was also the client of Sanchit in the above transaction was behind both the buy and sell transaction brokered by NAM and Sanchit. The Enquiry Officer recommended a penalty of suspension of certificate of registration of Sanchit for a period of four months.
- 2.2 Based on the recommendations of the Enquiry Officer, a show cause notice dated November 11, 2003 was issued to Sanchit under the Regulations 13(2) of the Enquiry Regulations asking it to show cause as to why appropriate action should not be initiated including penalty as recommended by the Enquiry Officer upon it. A copy of the Enquiry Report was also forwarded to the broker along with the said show cause notice.
- 2.3 Sanchit vide its letter dated January 07, 2004 inter alia replied to the show cause notice and stated as under:

- i. The total number of shares of EIL transacted by Sanchit for Share Plaza was just 8300 as against the total number of shares of 3,04,000 which cannot cause any impact on the price of EIL shares. Further, the said 8,300 shares were transacted over a period between January 7, 2000 to January 15, 2000. It is also to be noted that the price fluctuation in the shares had started long before the shares were traded through Sanchit.
- ii. As regards, the synchronised deals, it is submitted that the enquiry officer has relied upon the statement of Shri Vipin Gupta which has not been furnished to Sanchit and thus the same remains untested.
- iii. Nothing has been brought on record to show that Share Plaza, NAM Securities and Sanchit had any commonality of interest and that they were acting in concert for collective gain through synchronised trading.
- iv. At the time of executing the trades, they had no knowledge and means to know that the client was simultaneously placing the matching orders. In absence of such knowledge of synchronised trading indulged by the client, Sanchit cannot be considered to be a party to the synchronised trading.
- v. It is submitted that the non-involvement of Sanchit in synchronised trading is implicit from the fact that there was a time gap of 10-15 seconds between the placing of the orders in the office of Share Plaza and in the office of Sanchit, which clearly shows that the client was placing the orders on phone and there was no device or mechanism for the noticee to know

in the prevalent system who the counter party broker and who is the client for the counter party broker.

- vi. As regards, the allegation of dealing with unregistered sub broker, it is submitted that the enquiry officer has relied upon the statement of Vipin Gupta which lacks specific details of the transactions carried out by Sanchit. It is submitted that the copy of the said statement should be supplied to the noticee and the opportunity should be given to the noticee to cross examine Vipin Gupta, if his evidence is relied upon.

2.4 Sanchit vide letter dated November 11, 2006 further submitted that M/s. Nam Securities Ltd. was suspended for a period of 6 months vide SEBI order dated August 19, 2005. On appeal by Nam Securities before the Hon'ble SAT, their punishment was reduced to two working days vide order of Hon'ble SAT dated November 18, 2005.

3.1 An opportunity of personal hearing was granted to Sanchit before me on August 24, 2007 wherein Harsh Agarwal, Director attended the hearing and made submissions. Vide letter dated August 28, 2007, Sanchit interalia made the following written submission as under:

- i. *These trades have been executed in client code and not in PRO account.*
- ii. *That they have earned only a nominal brokerage of less than Rs.3000 in above referred trades and had no other interest.*
- iii. *The trades were transferred with the mutual consent of both clients.*
- iv. *That the trades were executed by NEAT system of exchange on telephonic order and the execution of trades in wrong account was*

merely a clerical error. In 2000, when these trades were executed, there was no system available in the NEAT SOFTWARE to check allotment of same code to two clients and this type of clerical error could be committed by any member. The fact that in year 2000 when these trades were executed, there was no system of unique client code (UCC) prescribed by NSE/SEBI. The concept of UCC was made mandatory for the first time on July 18, 2001 vide SEBI circular in SMDRP/POLICY/98-39/2001 which was communicated by NSE to its members vide circular no. NSE/CMO.22/2001 dated July 24, 2001. After this date, further circulars were issued requiring the members to upload the client details and also a facility was provided in NEAT system whereby the client code can be recorded in the front end system to avoid any errors of wrong punching of codes.

- v. While framing the judgment, the order of Hon'ble SAT dated November 18, 2005 in the case of prime accused M/s NSL may kindly be kept in mind wherein Hon'ble SAT has absolved NAM Securities from the charges of synchronized trades and price manipulation and awarded two days suspension only for violations like transfer of funds which have not been committed by us.*
- vi. Since there was no price manipulation, there has been no harm to any investor.*
- vii. They had taken adequate precautions and introduced proper procedures to avoid recurrence of such incidence like proper KYC norms, daily confirmation of trades to clients telephonically as well as through electronic /pre printed contract notes.*

- 4.1 I have carefully considered the enquiry report, show cause notice issued to Sanchit and the replies/ submissions made by in response to the show cause notice. 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.
- 4.2 During the relevant period, it was observed that Share Plaza was a common client for both Sanchit and counterparty broker Nam Securities. Sanchit had indulged in price manipulation by entering into transaction in the scrip of EIL during December 1999 to March 2000 as under:

Period	Buy	Sell	Net	Gross	Percentage
Dec. 1999 to March 2000	8,300	8,300	0	16,600	6.5%

There were as many as 7,500 shares in which Share Plaza was a common client for Sanchit and the counter party broker was NAM. Sanchit had executed certain transactions in the scrip of EIL between January 7, 2000 and January 18, 2000 wherein Share Plaza was a common client for both Sanchit and the counter party broker was NAM.

4.3 Sanchit had entered into synchronized trades with NAM wherein the client, viz. Share Plaza was common on both the buy and sell sides. Details of such trades are provided in the following table:

Trading Date	Trading Time	Trade Qty	Buy Order Time	Buy Order Qty	Buying Member	Sell Order time	Sell Order Qty	Selling Member	Diff in time buy and sell
7/1/2000	14:50:23	500	14:50:10	500	NAM	14:50:23	500	SFML	0:00:13
7/1/2000	14:51:03	500	14:50:49	500	NAM	14:51:03	500	SFML	0:00:14
7/1/2000	14:51:48	500	14:51:34	500	NAM	14:51:48	500	SFML	0:00:14
7/1/2000	14:52:09	300	14:52:02	300	NAM	14:52:09	300	SFML	0:00:07
7/1/2000	14:57:49	900	14:57:46	1000	NAM	14:57:49	1000	SFML	0:00:03
7/1/2000	14:58:49	800	14:58:36	800	NAM	14:58:47	800	SFML	0:00:11
7/1/2000	15:15:49	2000	15:15:46	2000	SFML	15:15:49	2000	NAM	0:00:03
7/1/2000	15:17:11	1600	15:16:51	1600	SFML	15:17:11	1600	NAM	0:00:20
17/1/2000	13:45:30	900	13:45:30	900	SFML	13:44:46	900	NAM	0:00:44
18/1/2000	11:32:54	1500	11:32:54	1500	NAM	11:32:36	1500	NAM	0:00:18

4.4 From the above table, it is clear that the gap between the orders placed by Sanchit and NAM are too narrow. Further the whole order quantity had matched in all the above transactions. It is admitted that Sanchit and Nam Securities were the brokers who executed the aforesaid trades. I note that Share Plaza is the sub broker of Nam Securities and Share Plaza was also the client of Sanchit in the above transactions. I note that both the parties to the transactions had entered buy and sell orders of shares almost simultaneously, purchase and sale quantity being exactly the same. It is observed that there was no transfer of title to these shares since the client was only one who was trading on both the sides i.e. Share Plaza. From the close proximity of the order time placed by both the parties, I find that the orders placed by Sanchit and NAM, quantity of order and the price at which orders were placed in

all the trades and the fact that buy client and the sell client is the same. It is clear that these transactions were synchronized.

- 4.5 Further, Sanchit was a counter party broker in case of 3 trades wherein the client was same (Share Plaza) on both the buy and sell sides.

Trading Date	Trading Time	Trade Qty	Buy Order Time	Buy Order Qty	Buying Member	Sell Order time	Sell Order Qty	Selling Member	Diff in time buy and sell
13/1/2000	15:29:21	2100	15:29:21	3500	NAM	11:35:16	3000	SFML	3:54:05
13/1/2000	15:29:37	500	15:29:37	500	NAM			SFML	3:54:21
13/1/2000	15:29:41	400	15:29:41	2000	NAM			SFML	3:54:25

- 4.6 These synchronised transactions where the buying client and selling client was the same i.e. Share Plaza, had created artificial or illusory volumes. Such transactions are irregular and defeat the purpose of normal order matching system in the price discovery process in the exchanges. However, I also observe that Sanchit had traded only on behalf of the client and had no trading on its own account. Also, no other relationship except client broker relationship could be established between Sanchit and the client.

- 4.7 With regard to the charge that Sanchit had dealt for Share Plaza without registering Share Plaza as its sub broker in violation of the aforesaid SEBI Circular, it is observed that trade logs of Sanchit show the name of Share Plaza as its client and bills were raised on Share Plaza itself for these transactions. The trade logs of NSE also show

Share Plaza as client of Sanchit. I do not find enough evidence to show that Share Plaza dealt through Sanchit as an unregistered sub-broker.

- 4.8 As observed earlier, there was no transfer of title in any of the trades that had taken place between Sanchit and NAM for Share Plaza, reason being the clients on both sides were the same viz., Share Plaza. The fact that Share Plaza was placing orders for both buy and sell sides continuously for quite a period of time should have alerted Sanchit. Sanchit despite being aware that Share Plaza is indulging in irregular practice chose to keep quiet. Sanchit should have exercised due skill, care and diligence while dealing with Share Plaza as required under Code of Conduct as specified in Clause A (2) under Schedule II read with Regulation 7 of the Broker Regulations.

5. Therefore, in exercise of the powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992, read with Regulation 28(2) of the under Regulation 28(2) of SEBI (Intermediaries) Regulations, 2008, I hereby warn M/s Sanchit Financial And Management Services Ltd, Member, National Stock Exchange of India Ltd. having SEBI registration no. INB 230803938 to the effect that the broker should be careful in future and exercise due skill, care and diligence in the conduct of its affairs as a capital market intermediary. I also direct Sanchit Financial And Management Services Ltd., to note that any instances of violation or non-compliance of the

SEBI Act and Rules and Regulations in future shall be dealt with stringently.

DATE: 15.1.2009

T.C.NAIR

WHOLE TIME MEMBER

PLACE: MUMBAI

SECURITIES AND EXCHANGE BOARD OF INDIA