

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

**IN THE MATTER OF SHARE PLAZA, SUB-BROKER OF M/s. NAM
SECURITIES LTD., MEMBER, NATIONAL STOCK EXCHANGE OF INDIA
LIMITED, IN THE SCRIP OF EIDER INFOTECH LTD.**

Date of hearing: August 24, 2007

Appearances:

For Noticees: Neeraj Sharma, Chartered Accountant

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

ORDER

**UNDER THE REGULATION 28 (2) OF SEBI (INTERMEDIARIES)
REGULATION 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 into the buying, selling and dealing of the scrip of EIL 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. Further 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 12th April 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 During the relevant period, it was alleged that M/s. Eider Infotech Ltd. and their associates/group companies played a major role in the price movement of the scrip. From the trading records and bank records, it was observed that EIL and its group companies directly funded the brokers and other entities who had significantly traded in the scrip during period I of investigation. The bank records revealed the flow of funds on a

continuous basis from group or associate companies of EIL to the accounts of brokers/sub-brokers etc.

1.5 It was alleged that Share Plaza, a sub-broker to Nam Securities Limited (hereinafter referred to as “NAM”) was a major client who had contributed to substantial volumes during the relevant period. Share Plaza traded for 7,500 shares of EIL and was a common client between NAM and Sanchit Financial and Management Services Ltd (hereinafter referred to as “Sanchit”), member, NSE on both buy and sell side. It was further alleged that Share Plaza had traded as an unregistered sub broker of Sanchit in violation of Section 12(1) of SEBI Act, 1992 and read with Rule 3 of SEBI (Stock Brokers and Sub Brokers) Rules (hereinafter referred to as “the Rules”) and SEBI Circulars SMD/OPG/AA/1020/96 dated March 14, 1996 and SMD/POLICY/CIR-11/97 dated May 21, 1997. The transactions done by Share Plaza through NAM and Sanchit were alleged to be irregular thereby violating Regulation 4(a), (b) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 (hereinafter referred to as “PFUTP Regulations”) and provisions of Clause A (1) and (2) of the Code of Conduct for sub brokers laid down in Regulation 15 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.

1.7 In view of the above findings of investigations, SEBI vide order dated July 2, 2002 appointed an Enquiry Officer to enquire into the contraventions/ violations committed by Share Plaza. The Enquiry Officer conducted the enquiry in terms of the then SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter

referred to as “Enquiry Regulations”) and found that by entering into synchronised transactions, where the buying and selling client was Share Plaza, it had created artificial volumes in the market in violation of Regulation 4 (c) and (d) of the PFUTP Regulations. The Enquiry Officer found that Share Plaza dealt as an unregistered sub broker to Sanchit while dealing for its ultimate clients and thus violated the provisions of Section 12 of the SEBI Act read with the Stock Broker Rules and aforesaid SEBI circulars dated March 14, 1996 and May 21, 1997. The Enquiry Officer submitted his report dated November 3, 2003 recommending a penalty of suspension of certificate of registration of Share Plaza as sub broker for a period of four months.

- 2.1 In terms of Regulation 13 (2) of the Enquiry Regulations, a copy of the enquiry report along with show cause notice dated November 11, 2003 was forwarded to Share Plaza, advising it to show cause as to why the appropriate penalty including penalty as recommended by the Enquiry Officer should not be imposed upon him.
- 2.2 Share Plaza vide its letter dated December 19, 2003 replied to the said show cause notice and interalia submitted that:
 - i. During 1999-2000, Share Plaza dealt through Sanchit on 5 days on their proprietary account by registering themselves as a client. However no dealing was made in the scrip of EIL and none of the transactions resulted into deliveries.

- ii. The pattern of dealings was irregular and intermittent and all such dealing were made on our proprietary account and none of the dealings were made on behalf of any of our ultimate clients. At no stage there was any evidence on record that they have ever made any transactions on behalf of their ultimate clients through Sanchit.
- iii. As regards, the allegation of acting as unregistered sub broker, it is submitted that it is made on the basis of opinion expressed by Mr. Vipul Kumar of Sanchit Financial and Management Services Ltd. On the mere opinion of the third party during his hearing who never had any access or knowledge of their records, no conclusion can be drawn that they have acted as unregistered sub brokers.
- iv. As regards, the transaction in the scrip of EIL through Sanchit, it is submitted that these transactions actually pertain to one Mr. Sunil Kumar, resident of 24, Ramnagar, Kangra Colony, Amritsar who later on pointed out the mistake to Sanchit and thereafter the accounting error was rectified by them.
- v. It is submitted that they have never introduced Mr. Sunil Kumar to Sanchit. Mr. Sunil Kumar was introduced to Sanchit by one Mr. Atul Sharma which is evidenced by his letter dated October 4, 2000 to SEBI.
- vi. It is denied that the bills were raised in the name of Share Plaza as it is confirmed that these transactions with Sanchit were made by Share Plaza. It is submitted that Sanchit had subsequently rectified these error in their books. It is further submitted that there must

have been some error on the part of Sanchit to put the correct client code while punching the transaction at NSE Trading Terminal.

- vii. It is denied that the orders or transactions of Mr. Sunil Kumar vis-à-vis Sanchit had any relation with them.

3.1 An opportunity of hearing was granted to Share Plaza before me on August 24, 2007 where in Shri Neeraj Sharma, CA, appeared on behalf of Share Plaza and made submissions. Further written submissions were submitted vide letter dated August 18, 2007 as under:

- (i) *The Enquiry Report contains the details of thirteen questionable transactions alleged to be of synchronized nature. It is confirmed that out of this only six transactions for 3600 shares as per the details given in their letter dated December 19, 2003 pertain to them. These transactions have been made through NEAT system of NSE, which involves logical and computerized matching of all buy and sell orders. When the orders are placed in NEAT systems, these may be picked by any of the NSE members all of whom have an equal opportunity of placing the reverse orders which result into trade. So these deals have executed on the screen of the exchange in the price and order mechanism permitted by NSE and SEBI. Under the autonomous system of matching of any order, every trade involves a cross deal between the two parties.*
- (ii) *The total floating stock of EIL was about 53 lakh shares and the total equity was about 2 crore shares. A dealing of 3600 shares on one day involving a*

narrow price range cannot result into manipulation of such a large equity and floating stock.

- (iii) These alleged synchronized deals got executed at the instance of their client, Mr. Sunil Kumar under the unique client code allotted to him which was duly punched in the NEAT system at the time of order entry.*
- (iv) They have not made any gains out of these transactions of 3600 shares except a nominal brokerage of about 1000/-*
- (v) The prime accused in the case was M/s. Nam Securities Ltd and the Hon'ble SAT in its order dated November 18, 2005 has upheld the SEBI order by modifying it by reducing the penalty of suspension of certificate of registration from 6 months to 2 days. The fact that the suspension of 2 days under gone by M/s NAM Securities Ltd. has already resulted into automatic suspension of their business also for the said two days.*

4.1 I have carefully considered the enquiry report, show cause notice issued to Share Plaza and the submissions made by the Share Plaza. 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. My findings are as under:

4.2 With regard to the charge that Share Plaza had dealt through Sanchit without registering itself as the sub broker of Sanchit in violation of the 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.

4.3 It is admitted fact that the transactions with NAM and Sanchit are synchronised trades wherein the price, quantity and time of the orders are matched as they were placed on the office of Share Plaza and the bills were raised on their behalf. I note that Share Plaza had executed 13 synchronised transactions during the period January 7, 2000 and January 18, 2000 as under:

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	1000	NAM	14:51:48	500	SFML	0:00:14
7/1/2000	14:52:09	300	14:52:02	800	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	15:17:11	2000	15:15:46	2000	NAM	15:15:49	2000	NAM	0:00:03
7/1/2000	15:29:21	1600	15:16:51	1600	NAM	15:17:11	1600	NAM	0:00:20
7/1/2000	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	11:35:16	3000	SFML	3:54:21
13/1/2000	15:29:41	400	15:29:41	2000	NAM	11:35:16	3000	SFML	3:54:25
13/1/2000	13:45:30	900	13:45:30	900	NAM	13:44:46	900	NAM	0:00:44
13/1/2000	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 is too narrow and complete order quantity had matched in all the transactions. Both the parties to the transactions had entered on buy and sell side almost simultaneously where purchase and sale quantity is exactly the same. It is observed that there was no transfer of title in these shares since the client was only one who was trading on both sides i.e. Share Plaza. From the close proximity of the order time placed by both the parties, namely Sanchit and NAM, quantity of order at which orders were placed in all the trades, it is clear that these transactions were synchronized. These trades are not genuine and intended only to show they were trading.
- 4.5 I note that Share Plaza had traded through NAM and Sanchit and placed the orders for both on the buy and sell side without any delivery of shares. These trades were placed in such a manner that they were settled without there actually being any payment or delivery. This kind of trading shows that Share Plaza was not interested in trading but was only interested in showing trading in the scrip without actually trading. From above, it is evident that Share Plaza was instrumental in dealing in the scrip in a synchronised manner which led to creation of artificial and illusory volumes. Such transactions are irregular and defeat the purpose of normal order matching system in the price discovery process in the exchanges are in violation of Regulation 4 (d) of PFUTP Regulations, 1995.
- 4.6 In view of the facts and circumstances of the case, I am of the view that the certificate of registration of Share Plaza as a sub-broker of NAM Securities Ltd. should be suspended for a specified period of time. However, I also

note that the certificate of registration of Share Plaza (SEBI Regn. No. INS230514924) as a sub-broker of NAM Securities Ltd., member NSE has already been cancelled w.e.f. May 10, 2006.

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 Securities and Exchange Board of India (Intermediaries) Regulations, 2008, I hereby dispose of the show cause notice against Share Plaza (INS230514924), sub broker affiliated to NAM Securities Limited, member NSE. However, I also warn Share Plaza to be careful in future and exercise due skill, care and diligence in its dealings in the securities market. I also direct Share Plaza to note that any instances of violation or non-compliance of the SEBI Act and Rules and Regulations in future shall be dealt stringently.

DATE : 15.01.2009

T.C.NAIR

PLACE: MUMBAI

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA