

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: DR. K.M. ABRAHAM, WHOLE TIME MEMBER

ORDER

UNDER REGULATION 28(2) OF SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 AGAINST KHUSHAL SECURITIES PRIVATE LIMITED IN RESPECT OF ITS DEALINGS IN THE SHARES OF KARISHMA FLORICULTURE LIMITED

1. It was brought to the notice of Securities and Exchange Board of India (hereinafter referred to as SEBI) that the shares of Karishma Floriculture Limited (hereinafter referred to as the company) which were traded in a low volume in the month of June–July 1995 witnessed rapid spurt in the volume from July 31, 1995 and the daily traded volume exceeded more than a lakh (more than 10 lakhs on certain days) coupled with corresponding increase in its share price. In view of the above, SEBI initiated investigation in respect of the market manipulation and irregularities, if any, in the trading of the shares of the company and also to find out possible violations of the provisions of the Securities and Exchange Board of India Act, 1992, Securities and Exchange Board of India (Stock Brokers and Sub- Brokers) Regulations, 1992 etc. The investigation conducted by SEBI, *inter alia* observed that the company had come out with its initial public offer of 37,50,000 equity shares of Rs.10/- each, in the year 1995. The public issue of the company was opened on January 19, 1995 and closed on January 23, 1995. Thereafter, its shares were *inter alia* listed at the Delhi Stock Exchange Association Limited (hereinafter referred to as DSE) on April 10, 1995 at a price of Rs.13.50/- (open price). It was further observed that the share price of the company went up from Rs.11/- on August

1, 1995 to Rs. 27.25/- on August 29, 1995. Subsequently, the share price of the company fell to Rs. 14.50/- on November 24, 1995. Thereafter, another spurt in the share price was noticed from November 24, 1995 onwards when the price went up to Rs.31.87/- on January 8, 1996. Later, the price of the scrip went down. It was found that Mr. S. N. Bansal, promoter of the company was actively trading in the shares of the company during the above period and that most of his trades were through his front entities namely, M/s. Domino Finance and M/s. SRP Investment. It was also observed that during the period April to July, 1995, Mr. S. N. Bansal traded through the stock broker namely, M/s. J. P. Totla & Co (Member, DSE). J P. Totla & Co. was a proprietorship concern with Mr. J. P. Totla as its proprietor. Subsequently, it was converted into a private limited company in the name and style 'Khushal Securities Private Limited' with Mr. J. P. Totla as its director. The certificate of registration of J. P. Totla & Co. (as a stock broker) was transferred to the said Khushal Securities Private Limited and an undertaking was given by the latter to the effect that it would honour all the rights/obligations and liabilities of the former.

2. On analysis of the trading details, findings of the investigations and the volumes contributed by M/s. J.P. Totla & Co. in the shares of the company during the period of investigation, it was *prima facie* found that the said stock broker traded substantially on behalf of its clients and contributed in the creation of false volumes and facilitated manipulation in the shares of the company. Between, April 1995 and May 1996, M/s J P Totla & Co bought 8,70,000 shares and sold 9,42,200 shares of the company and that it was found to be the second largest trader in the shares of the company during the period of investigation. The share price of the company increased approximately from Rs. 11/- in the month of April 1995 to Rs. 25/- in the month of August 1995. Thus, M/s J.P Totla & Co, *prima facie*, was found to be one of the stock brokers that

had actively traded in the shares of the company during the period of investigation and contributed substantially to the creation of false volumes in the said shares. It was observed that the promoter of the company was executing trades in the shares of the company through his front entities during the said period. Therefore, it was alleged that M/s. J.P. Totla & Co. *prima facie* violated the provisions of Clauses A(2) to A(4) of the Code of Conduct specified under Schedule II of Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as the Broker Regulations).

3. In view of the above, SEBI, vide order dated July 30, 2004 read with a subsequent order dated November 8, 2004 appointed an Enquiry Officer under the provisions of Securities and Exchange Board of India (Procedure for Holding Enquiry by the Enquiry Officer and Imposing Penalty) Regulations, 2002 (since repealed) to enquire into the alleged violations committed by Khushal Securities Private Limited (earlier known as M/s. J.P. Totla & Co). Securities and Exchange Board of India (Procedure for Holding Enquiry by the Enquiry Officer and Imposing Penalty) Regulations, 2002 is hereinafter referred to as the Enquiry Regulations. The Enquiry Officer, vide report dated February 15, 2007 recommended the suspension of the certificate of registration of Khushal Securities Private Limited for a period of three weeks. The Enquiry Officer observed that Khushal Securities Private Limited violated Clauses A(2) to A(4) of the Code of Conduct specified in the Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992 (hereinafter referred to as the Broker Regulations). Khushal Securities Private Limited is hereinafter referred to as the stock broker for the sake of brevity.

4. Thereafter, a notice dated February 21, 2007 was issued by SEBI to the stock broker asking it to show cause as to why the penalty as recommended by

the Enquiry Officer should not be imposed on it. A copy of the Enquiry Report was also forwarded to the stock broker with the said show cause notice. The stock broker, vide letter dated February 22, 2007 acknowledged the receipt of the show cause notice and instead of filing its submissions in respect of the charges levelled against it, requested for a complete copy of the Investigation Report of SEBI. In response to the said request of the stock broker, SEBI, vide letter dated February 27, 2007 informed that, as the investigation report contained the role of various entities including those which were not linked to the stock broker, the same could not be provided to it. It was also informed to the stock broker that copies of documents relied upon by SEBI were already forwarded to it, vide letter dated May 25, 2005. The stock broker, vide letter dated March 02, 2007 while acknowledging the receipt of the above mentioned letter dated May 25, 2005 (this letter enclosed the copies of the documents supporting the show cause notice issued to the stock broker during the proceedings before the Enquiry Officer), again sought the copy of the Investigation Report. Subsequently, SEBI, vide letter dated March 06, 2007 informed the stock broker that its request for copy of the investigation report could not be accepted for the reasons stated in its earlier letter dated February 27, 2007. SEBI further requested the stock broker to furnish its reply to the show cause notice dated February 21, 2007 latest by March 15, 2007. As there was no response/reply received from the stock broker, SEBI, once again, vide letter dated September 05, 2007, extended the time to file the reply upto September 15, 2007. The stock broker, vide letter dated September 06, 2007 reiterated its request for the copy of the investigation report. SEBI vide letter dated September 12, 2007, reminded the stock broker that copies of all documents relied upon in the matter had already been furnished to it, vide letter dated May 25, 2005. The stock broker was further advised to submit its reply to the show cause notice latest by September 21, 2007. As no reply was received

from the stock broker, SEBI vide letter dated October 25, 2007 had given a final opportunity to the stock broker to submit its reply by November 10, 2007. It was also informed to the stock broker that, in case it failed to submit its reply, the matter would be decided on best judgment on the basis of the documents available. Despite such letter, the stock broker again requested for a copy of the Investigation Report in the matter, vide letter dated October 26, 2007, instead of replying to the show cause notice. Thereafter, SEBI, vide letter dated October 31, 2007 reiterated that the documents relied upon in the matter were already furnished to the stock broker. The stock broker was further advised to furnish the reply before November 10, 2007. Thereafter, the time to file the reply was further extended upto April 25, 2008 by SEBI, vide letter dated April 10, 2008. In reply, the stock broker, vide letter dated April 11, 2008 again sought a copy of the Investigation Report. Subsequently, an opportunity of hearing was granted to the stock broker on January 02, 2009. The stock broker, vide letter dated December 29, 2008 replied that no useful purpose would be served by appearing for the hearing unless a full copy of the Investigation Report was furnished to it in the matter. None appeared on behalf of the stock broker before me on the date fixed for hearing.

5. I note that sufficient opportunities were provided by SEBI to the stock broker in compliance of the principles of natural justice, so that it could make its submission/explanation, if any, in respect of the show cause notice issued to it. SEBI had also provided the documents/information relied upon in respect of the charges levelled against the stock broker. Besides, the show cause notice dated November 27, 2004 issued to the stock broker (when the matter was pending before the Enquiry Officer), brought out in detail, the trade transactions of the stock broker in the shares of the company, particulars of its clients, nature of its trades etc. I note that the stock broker, vide letter dated December

14, 2004, in reply to the said show cause notice, had requested the full details of the transactions. Thereafter, sufficient opportunities were provided to the stock broker (as requested by it) by SEBI to inspect the documents. However, it had failed to avail the said opportunities. Subsequently, the stock broker informed its inability to personally inspect the documents and further requested SEBI to furnish the copy of various documents. In response to the said request of the stock broker, SEBI, vide letter dated May 25, 2005 forwarded the copy of various documents to the stock broker, as stated below:

- i. Order dated 09-07-1996 of Chairman, SEBI
- ii. Complaints from Mr. Jitendra Mehta and Mr. Sandeep
- iii. Complaint from Rakesh Kapoor & Co.
- iv. Joint complaint by M/s. N. N. Jain & Co., N. D. Bajaj & Co., Rakesh Kapoor & Co., M. G. Shares & Stocks (P) Ltd. and R. Singhania & Co.
- v. Price volume data from DSE from 04-04-1995 to 31-05-1996
- vi. List of top 20 sellers and buyers in the shares of Karishma Floriculture Ltd. from 04-04-1995 to 31-05-1996
- vii. Letter dated 06-09-1996 from the stock broker
- viii. Share stock ledger of the stock broker
- ix. Statement of account of Domino Finance and SRP Investments in the books of the stock broker
- x. Letter dated 23-05-1997 from the stock broker
- xi. Statement of the stock broker recorded on 09-09-1996 recorded in the office of SEBI, and
- xii. Trading volume data of the stock broker for the dates mentioned in the show cause notice obtained from the DSE

6. I note that, in addition to the said documents, SEBI had also provided the copy of the Enquiry Report with the show cause notice dated February 21, 2007. Thereafter, the stock broker was repeatedly (vide letters dated February

27, 2007, March 06, 2007, September 05, 2007, September 12, 2007, October 25, 2007, October 31, 2007, April 10, 2008) advised, from to time, to file its submissions in respect of the charges levelled against it. Subsequently, an opportunity of hearing was also granted to the stock broker to make oral submissions. However, the stock broker deliberately failed to make any submissions and instead, persistently insisted for a copy of the investigation report. I note that the charge against the stock broker is that, it had violated Clauses A (2) to A(4) of the Code of Conduct specified in Schedule II of the Broker Regulations. The said charge is *inter alia* based on the fact that its trades [on behalf of Mr. S.N.Bansal (promoter of the company), who traded through his front entities] created false market in the shares of the company. As per the charges levelled, the stock broker had also indulged in manipulative trades. Therefore, in this proceedings, it is only to be examined whether the stock broker traded on behalf of Mr. S.N.Bansal (promoter of the company), who traded through his front entities in the shares of the company and whether such trades *inter alia* created false market in violation of the provisions of the code of conduct as specified above. According to me, the request of the stock broker to provide it with the copy of the investigation report is to be considered against this background. Admittedly, SEBI provided various relevant/relied upon documents (pertaining to the matter) to the stock broker, as stated in para 5 of this order. A perusal of the said documents makes it clear that they are adequate for the stock broker to make its submissions in respect of the charges framed against it. The stock broker was also provided with the copy of the Enquiry Report. Moreover, it is pertinent to note that, nowhere in its letters (in response to the show cause notice dated February 21, 2007) cited above in para 4 of this order, stock broker denied the execution of trades in the shares of the company on behalf of Mr. S.N.Bansal during the period of investigation. Thus, primarily no prejudice is caused to the stock broker by not providing the

copy of the Investigation Report.

7. Further, the extracts of the investigation report which covers the role of the stock broker in respect of the alleged charges were furnished to it, vide show cause notice dated November 27, 2004 (when the matter was pending before the Enquiry Officer). As all the documents supporting the allegations levelled against the stock broker had already been furnished, I am of the considered view that the stock broker has not been put to any disadvantage by not having a copy of the entire Investigation Report. Nothing prevented the stock broker from making its submission rebutting the charges framed against it, on the basis of the documents furnished. The intention of the stock broker appears to have been to delay the proceedings in one or the other pretext. I consider that no purpose would be served in giving another opportunity to the stock broker. In the chain of events as mentioned above, the successive requests for copy of the Investigation Report was nothing but dilatory tactics to thwart the quasi judicial process by causing frivolous and vexatious delay. Therefore, there is a strong case to decide the matter on the basis of all materials available on record, including the Enquiry Report and the correspondence exchanged between the stock broker and SEBI and the material circumstances bearing on the case in the exercise of best judgment, otherwise the case would be stalled interminably, without finality, which would sub serve the interests of the stock broker. In view of the above discussions, I am not inclined to allow the request of the stock broker to provide a copy of the investigation report.

8. In respect of the charges levelled against the stock broker my findings are as under. Considering the totality of the facts and circumstances, according to me, the pertinent issues to dispose of the present proceedings are the

following:

i) Whether the stock broker traded substantially in the shares of the company including its trades on behalf of the promoter (Mr. S.N.Bansal) of the company during the period of investigation.

ii) Whether such trades were in violation of Clauses A(2) to A(4) of the Code of Conduct specified in Schedule II of the Broker Regulations.

9. I note that the stock broker traded substantially in the shares of the company during the period of investigation. Trade details of the stock broker in the shares of the company are given below:

TABLE I - PERIOD: APRIL 1995 – MAY 1996

TOTAL BUY (number of shares)	TOTAL SELL (number of shares)	NET POSITION (number of shares)	GROSS POSITION (number of shares)	TOTAL QUANTITY TRADED (number of shares)	% OF THE STOCK BROKER'S TRADES TO THE TOTAL TRADES
870700	942200	71500	1812900	53442600	3.39%

TABLE II- PERIOD: APRIL 1995 – JULY 1995

total buy (number of shares)	total sell (number of shares)	net position (number of shares)	gross position (number of shares)	% of the stock broker s' trades to the total trades	% of the stock broker s buy position to the total purchases	% of the stock broker s net buy position to the floating stock of 30,00,000 shares
358800	80100	278700	438900	13.01%	21.28%	9.29%

10. The trading of the stock broker in the shares of the company at BSE was substantial during April 1995 – July 1995 as given below:

Date	Buy (number of shares)	Sell (number of shares)	Gross (number of shares)	Gross as % of DSE volume
17.4.95	26,300	0	26,300	12.80%
20.4.95	9,100	0	9,100	16.87%
21.4.95	9,300	500	9,800	22.79%
24.4.95	7,800	0	7,800	15.12%
25.4.95	30,900	0	30,900	26.23%
26.4.95	6,300	0	6,300	23.33%
27.4.95	5,100	0	5,100	13.28%
28.4.95	2,700	0	2,700	10.54%
1.5.95	13,600	0	13,600	37.98%
3.5.95	5,800	0	5,800	29.29%
4.5.95	1,800	0	1,800	22.5%
5.5.95	3,000	46,200	49,200	16.71%
8.5.95	5,900	0	5,900	10.61%
15.5.95	5,300	0	5,300	24.76%
17.5.95	5,200	0	5,200	15.29%
1.6.95	8,200	300	8,500	38.99%
6.6.95	2,000	0	2,000	37.03%
7.6.95	17,400	0	17,400	25.81%
9.6.95	1,400	0	1,400	9.58%
13.6.95	1,000	0	1,000	45.45%
14.6.95	1,200	0	1,200	22.22%
19.6.95	1,200	0	1,200	18.75%
26.6.95	11,800	0	11,800	20%
27.6.95	25,600	0	25,600	21.33%
28.6.95	35,400	700	36,100	15.66%
29.6.95	5,500	0	5,500	10.29%
30.6.95	17,600	0	17,600	24.71%
4.7.95	2,300	0	2,300	13.21%
7.7.95	20,000	25,100	45,100	43.36%
11.7.95	5,000	0	5,000	31.64%

12.7.95	7,900	0	7,900	34.34%
14.7.95	2,300	0	2,300	37.09%
20.7.95	2,800	0	2,800	13.08%

Thus, the stock broker was one of the top stock brokers traded in the shares of the company at DSE during April – July 1995 and had purchased 3,58,800 shares and sold 80,100 shares of the company resulting in a gross turnover of 4,38,900 shares, which was 13.01% of the total trading at DSE. The purchases of the stock broker were thus 21.28% of the total buy of 16,85,800 shares of the company at DSE. By continuously buying shares, the stock broker was not only creating a false market in the shares of the company but was also reducing the availability of its floating stock. During this period of April-July 1995, its trading resulted in a net buy of 2,78,700 shares of the company i.e. 9.29% of the floating stock.

11. During the period between April 1995 and March 1996, the stock broker traded in the shares of the company mainly for the following clients:

- i. Hemlata Stock Brokers Private Limited.
- ii. Domino Finance (BBY A/c)
- iii. Domino Finance
- iv. SRP (BBY A/c)
- v. SRP Investment
- vi. JPT Securities Limited

12. It was found that most of the trading by Mr. S. N. Bansal was through Domino Finance and SRP Investment. The Table I at para 9 above, clearly indicates that for the period between April 1995 and July 1995, the stock broker was the net buyer of 2,78,700 shares which comprises 9.29% of the floating stock

(of 30,00,000 shares) of the company available in the market. Further, the stock broker had predominantly traded for two clients, namely Domino Finance and SRP Investment. I find that Domino Finance had purchased a net of 1,54,000 shares during the period between April 1995 and August 1995. SRP Investment had also purchased a net of 1,22,500 shares during the same period. These details have been gathered from the daily ledger of the stock broker (the copy of which was furnished to the stock broker by SEBI, vide letter dated May 25,2005) . Thus, the total net position of the aforesaid two clients taken together was 2,76,500 shares which constituted around 9.21% of the floating stock in the shares of the company available in the market during the relevant period. Therefore, I find that the stock broker had contributed substantially (in buy position) for the trades during the period between April 1995 and July 1995. Needless to say, the trades of the stock broker in the shares of the company also created false market. The said trades also created manipulation in the shares of the company.

13. As regards the relationship between the stock broker and Mr. S. N. Bansal (promoter of the company), I find that Mr. J. P. Totla (director of the stock broker) was well acquainted with Mr. S. N. Bansal. The relation/acquaintance is borne out from the statement of Mr. J. P. Totla given to SEBI. Mr. J. P. Totla in his statement (to SEBI) recorded on September 09, 1996 acknowledged that Domino Finance and SRP Investments were the front entities of Mr. S. N. Bansal. The relation between Mr. S. N. Bansal and the stock broker is further fortified by the fact that Mr. S. N. Bansal had instructed the stock broker to pay all cheques, bills, contract notes etc., in favour of Domino Finance and SRP Investments. Further more, all the orders for purchase and sell were placed by Mr. S. N. Bansal or by his office. Besides, the shares which were purchased on behalf of the aforesaid clients were delivered in the office of Mr. S. N. Bansal and

the receipt was acknowledged by his staff. The shares which were meant for selling were also received from the office of Mr. S. N. Bansal. The relevant portion of his statement to SEBI is quoted below:

" Q2 As per the information provided by you, vide your letter dated 6.9.96, you have dealt for M/s. SPR Investment and M/s. Domino Finance. Who are these concerns?"

Ans. Both these concerns are front concerns of Sh S.N. Bansal who is the Managing Director of KFL. Mr. Asheesh Gupta and Mr. Ramesh Kumar who are shown as contact persons of M/s. Domino Finance and M/s. SRP Investments respectively are proprietors of these concerns as informed by Sh Bansal or his office. Similarly, addresses of M/s.SRP Investments and M/s. Domino Finance as given to you were obtained by me from Sh Bansal.

Q4. Do you have any evidence of delivering shares to Sh Bansal or transacting business on his behalf or instruction?

Ans. No evidence is available to this effect. However, all orders for purchase/sale of KFL were coming from Sh S.N. Bansal himself or by somebody in his office. All shares were delivered at Sh Bansal's Nehru Place office by our boys. These deliveries are acknowledged by members of his staff. Likewise, all deliveries against sale in the account of these concerns had come from the office of Sh Bansal.

Q5 Do you know Shri Bansal personally and have you ever met him?

Ans. I met Sh Bansal at his office at Nehru Place after I started dealing with him".

14. The above statement would indicate that the stock broker was well in contact with Mr. S.N Bansal at the time of the transactions. Needless to say, the stock broker, while executing such trades for M/s. Domino Finance and M/s. SRP Investments was aware that they were the front entities of Mr. S N Bansal. Admittedly, the purchase/sale orders were given *inter alia* by Mr. S N Bansal. Even, the delivery was given to/received from the office of Mr. S N Bansal. Undoubtedly, by doing so, the stock broker failed to exercise due skill, care and diligence in the conduct of its business. The stock broker should not have involved in such transactions. Another important fact (as recorded in the Enquiry Report) is the presence of two separate Memorandums of Understanding (MoU)

dated November 20, 1995 and December 15, 1995 entered into between Mr. S. N. Bansal through his associate, Karkaria Investments and one Amrik Singh for the purchase of shares of the company. As per the MoU dated November 22, 1995, it was agreed that ten lakh shares of the company were to be purchased from the open market, in the following manner, Five lakh shares were to be purchased by Mr. S. N. Bansal and another 5 lakh shares were to be purchased by Mr. Amrik Singh. In terms of the said MoU, the shares so purchased were to be disinvested later and the profits shares equally between them. Mr. S. N. Bansal guaranteed a minimum return of 6% per month on the total amount invested and as a security gave 3 lakh shares of the company with transfer deeds to Mr. Amrik Singh. It is found that part payment for the purchase of shares by Mr. Amrik Singh was made by M/s. Domino Finance, Suman Nursery, Karishma Industries and KFL Finance & Securities Limited which are associate/related entities of Mr. S N Bansal. It was also found that cheques amounting to Rs.130 lakhs were provided by Mr. S N Bansal to Mr. Amrik Singh for the purchase of the shares of the company in terms of the MoUs. From the ledger accounts of the stock broker, it was found that the stock broker had sold 2.5 lakh shares of the company at the rate of Rs.20.75/- per shares for its client, SRP Investments to M/s. M. Agarwal & Co. (member, DSE) on December 11, 1995. M/s. M. Agarwal & Co. had purchased the said shares for its client/associate company, Globe Merchants Limited. On the very same day, the said shares were sold by M/s. M. Agarwal & Co. to M/s. Rajneesh Garg & Co., who in turn sold the shares to Santosh Goel & Co (Member, Ludhiana Stock Exchange Limited). M/s. Santosh Goel had then sold the shares to Mr. Amrik Singh on December 12, 1995. Mr. Amrik Singh had purchased these shares in terms of the agreement entered into with Mr. S. N. Bansal. Thus, it can be seen that the stock broker was a necessary party to the chain of transactions executed by the promoter of the company with their associates, clearly for the purpose of

manipulating the shares of the company. It is not the case of the stock broker that it was unaware that its clients were connected to the company. The primary charge against the stock broker is that it enabled cornering of stock by certain entities between April and July 1995. Though price rise may be incidental to such cornering of shares, concentrated buying would give a false appearance of trading activity in the shares of a company which had just floated their public issue of 37.5 lakh equity shares during January 1995. In this scenario, executing trades by the stock broker on behalf of the promoter of such company cannot be treated as trivial and ignored.

15. The trades of the stock broker also created false market in the shares of the company to the detriment of genuine investors. The stock broker was found to be second largest trader in the shares of the company during the relevant period. From the above, I find that the stock broker traded for certain entities with the knowledge that they were the front entities of the promoter of the company itself. The attending factors indicate that the stock broker was one among those responsible for creation of false market in the scrip to the detriment of genuine investors. The Hon'ble Securities Appellate Tribunal, in the matter of Ketan Parekh v/s SEBI had *inter alia* observed:

"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."

16. Needless to say, the attendant circumstances show that the trades of the stock broker distorted the market equilibrium. Such trades on behalf of the promoter of the company in the very same shares cannot be ignored as of little consequence. The Hon'ble SAT, vide order dated December 17, 2008 in Gaurav Shah Vs Whole Time Member, SEBI, *inter alia* observed "*When the promoters of a company through their own front entities start manipulating their own scrip, the charge is more serious and those who act in concert with them are equally responsible*"

17. In terms of Regulation 7 of the Broker Regulations stock brokers shall at all times abide by the Code of Conduct as specified in Schedule II thereof. Relevant provisions of the Code of Conduct for stock brokers are reproduced herein below for easy reference:

"A. GENERAL

(1)

(2) *EXERCISE OF DUE SKILL AND CARE: A stock-broker, shall act with due skill, care and diligence in the conduct of all his business.*

(3) *MANIPULATION: A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.*

(4) *MALPRACTICES: A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stock-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.*

.....”

18. The stock broker is responsible for its actions under the charges levied against it. The very fact that the stock broker traded on behalf of the promoter (through his front entities) of the company in the shares of the said company and which created false market and price increase in its shares amply prove that, it had acted without due skill, care and diligence. Needless to say, the stock broker indulged in manipulative trades and thus distorted the market equilibrium. I have no hesitation in holding that the stock broker has contravened the provisions of sub-clauses (2), (3) & (4) of Clause A of the Code of Conduct prescribed for stock brokers under the Broker Regulations. It is also noted that the stock broker has not replied to the show cause notice issued pursuant to the submission of the Enquiry Report. Besides, it has not controverted the findings of the Enquiry Officer. These facts are sufficient enough to prove the charges of violation of Clauses A(2) to A(4) of the Code of Conduct specified mentioned in Schedule II of the Broker Regulations, as observed by the Enquiry Officer. I find no reason to disagree with the recommendations of the Enquiry Officer. The present case has been initiated under the provisions of the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002. Though, the said Regulation was 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 2002 Regulations (mentioned above) before the publication of the 2008 Regulations (mentioned above) in the Official Gazette are deemed to have been done or taken or commenced under the corresponding provisions of the 2008 Regulations. Therefore, this order is being passed under the corresponding provisions of the Securities and Exchange Board of India (Intermediaries Regulations), 2008.

19. In view of the foregoing, I, in exercise of powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28 (2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby suspend the certificate of registration of the stock broker viz. Khushal Securities Private Limited (Registration No. INB 51003631), Member, Delhi Stock Exchange Association Limited, for a period of three weeks

20. This order shall come into force immediately on expiry of twenty one days from the date of this order.

K. M. ABRAHAM
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

Place: Mumbai

Date: April 20, 2009