

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 M/S. BASANT KUMAR CHIRIMAR IN THE MATTER OF SHARADRAJ TRADE FINANCE LIMITED.

Date of hearing: **August 05, 2009**

Appearance:

For M/s. Basant Kumar Chirimar: Mr. Aditya Chirimar

For Securities and Exchange Board of India: Mr. Jayanta Jash, General Manager

Mr. Vijayakrishnan G, Deputy Legal Adviser

Mr. Mrityunjaya Behera, Assistant General Manager

Mr. T. Vinay Rajneesh, Legal Officer

1. The Securities and Exchange Board of India (hereinafter referred to as SEBI) had conducted investigations into the alleged excessive speculative transactions in some of the finance/investment, bio-tech and info-tech companies which were listed at the Calcutta Stock Exchange Association Limited (hereinafter referred to as CSE). Sharadraj Trade Finance Limited (hereinafter referred to as the company) was one such company whose shares witnessed widespread speculative trading at CSE. In view of the alleged irregularities, the trading in the shares of the company during the period between July 2001 and October 2001 (hereinafter referred to as the investigation period) was subjected to investigation by SEBI to find out the

possible violations of the provisions of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as SEBI Act) and the Regulations framed thereunder.

2. The investigation conducted by SEBI revealed that there was unusual price variation in the shares of the company during the investigation period. The share price decreased from Rs.67.50/- to Rs.29.60/- during the above period. It was also observed that almost the entire volume in the shares of the company during the period of investigation was generated by three stock brokers namely, Swadha Securities Private Limited, M/s Ballabh Dass Daga and M/s Basant Kumar Chirimar (Members of CSE). M/s Basant Kumar Chirimar had traded for 5,10,000 shares of the company which accounted for 25% of the total volume in the said shares at CSE during the investigation period. It was alleged that the aforesaid stock brokers executed matched/synchronized trades at their own terminals. It was *inter alia* alleged that M/s. Basant Kumar Chirimar had dealt in the shares of the company in a manner *prima facie* contravening the provisions of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as the PFUTP Regulations) and the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as the Stock Brokers Regulations). In order to enquire into the alleged violations said to have been committed by M/s Basant Kumar Chirimar, an Enquiry Officer was appointed by SEBI, vide order dated September 18, 2004 in terms of the provisions of the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as the Enquiry Regulations). M/s Basant Kumar Chirimar is hereinafter referred to as the stock broker.

3. The Enquiry Officer found that the stock broker *inter alia* contravened the provisions of Regulation 4 (a) and 4(b) of the PFUTP Regulations and Clauses A (1), A(2) and A(4) of the Code of Conduct prescribed for stock brokers under Schedule II of the Stock Brokers Regulations. The Enquiry Officer, further, vide his Enquiry Report dated December 19, 2006 recommended that the certificate of registration of the stock broker be suspended for a period of six months. Thereafter, SEBI, vide notice dated December 28, 2006 furnished a copy of the Enquiry Report to the stock broker and advised it to show cause as to why action as recommended by the Enquiry Officer or as may be deemed appropriate not be taken against it. Though, the said letter was acknowledged by the stock broker on the same day it had failed to file its submission. As no reply was received from the stock broker, another reminder was sent to it on May 02, 2007. Thereafter, SEBI granted an opportunity of hearing to the stock broker on May 23, 2008. The stock broker failed to appear for the hearing. Subsequently, vide letter dated August 4, 2008, the stock broker requested SEBI to provide it with an opportunity of hearing. Thereafter, SEBI, vide letter dated July 25, 2008 advised the stock broker to inform as to whether it required another opportunity of hearing. Subsequently, SEBI granted various opportunities to the Broker, vide letters dated October 1, 2008, November 11, 2008 and January 20, 2009 to furnish its reply. All the aforesaid letters were acknowledged by the stock broker, no submissions were made by the stock broker in respect of the show cause notice dated December 28, 2006. Finally, Mr. Aditya Chirimar appeared before me on behalf of the stock broker on August 05, 2009 and requested to take a lenient view. He also stated that he had appeared before the Enquiry Officer in the matter on behalf of the stock broker and made submissions. He stated that he had no additional submissions apart from what he made before the Enquiry Officer. Mr. Aditya Chirimar further stated that the stock broker has stopped undertaking stock broking business. The present proceedings had been initiated under the provisions of Securities

and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002. The said Regulation was repealed with effect from the notification of Securities and Exchange Board of India (Intermediaries) Regulations, 2008. Therefore, I dispose of the present proceedings under the provisions of Securities and Exchange Board of India (Intermediaries) Regulations, on the basis of the available material on record and the oral submissions made by Mr. Aditya Chirimar on behalf of the stock broker on August 05, 2009.

4. After having examined the aforesaid documents and the submissions made on behalf of the stock broker, the following issues would arise for consideration:

- a) Whether the stock broker had contravened the relevant provisions of the PFUTP Regulations?*
- b) Whether the stock broker had contravened the Code of Conduct prescribed for stock brokers under the Stock Brokers Regulations?*
- c) If the stock broker is found guilty of contravening the aforesaid Regulations, what would be the quantum of penalty to be imposed on it?*

5. I note that SEBI had conducted investigation into the dealing in the shares of the company for the period July 2001 and October 2001 after noticing widespread speculative transactions in the shares of the company at CSE. The investigation conducted by SEBI observed that the average price of the shares of the company at CSE was in the range of Rs.62/- to Rs.67/- during the settlement nos. 2002115-25. Thereafter, the price declined from Rs.67.50/- to Rs.29.60/-, a decrease of nearly 50% during settlement nos. 2002126 to 2002129. The trade details furnished by CSE for the relevant period indicated that during the said period {settlement nos. 2002126 to 2002129} almost the

entire trade volume in the shares of the company was contributed by three stock brokers namely, Swadha Securities Private Limited, M/s Basant Kumar Chirimar and M/s. Ballabh Dass Daga . The table below indicates the volumes contributed by the aforesaid three stock brokers along with the total volumes traded at CSE in the shares of the company, during the investigation period.

Settlement No.	Date	stock brokers' total trade volume			CSE's total trading data	% of stock brokers' volume to CSE	High (Rs.)	Low (Rs)	Av Price (Rs)	Net Delivery of selected stock brokers
		Buy Qty	Sell Qty	Total						
2002115	2.7.01-6.7.01	12000	12000	24000	24000	100	63.50	63.50	63.50	0
2002116	9.7.01-13.7.01	8000	8000	16000	17000	94	63.50	60.00	61.75	0
2002117	16.7.01-20.7.01	87000	87000	174000	249000	70	66.10	63.20	64.65	0
2002118	23.7.01-27.7.01	34000	34000	68000	68000	100	66.20	66.00	66.10	0
2002119	30.7.01-3.8.01	167700	167700	335400	335400	100	66.00	60.00	63.00	0
2002120	6.8.01-10.8.01	130000	130000	260000	260000	100	67.00	65.00	66.00	0
2002121	13.8.01-17.8.01	86100	86100	237000	237000	100	66.50	66.00	66.25	0
2002122	20.8.01-	8000	8000	16000	16000	100	67.00	67.00	67.00	0

Settlement No.	Date	stock brokers' total trade volume			CSE's total trading data	% of stock brokers' volume to CSE	High (Rs.)	Low (Rs)	Av Price (Rs)	Net Delivery of selected stock brokers
		Buy Qty	Sell Qty	Total						
	24.8.01									
2002123	27.8.01-31.8.01	30800	30800	61600	61600	100	67.00	67.00	67.00	0
2002124	3.9.01-7.9.01	87400	87400	174800	174800	100	67.50	67.00	67.25	0
2002125	10.9.01-14.9.01	31500	31500	63000	63000	100	67.50	67.50	67.50	0
2002126	17.9.01-21.9.01	16000	16000	55400	55400	100	67.50	49.00	58.25	0
2002127	24.9.01-28.9.01	86000	86000	172000	172000	100	45.20	38.80	42.00	0
2002128	1.10.01-5.10.01	35000	35000	210000	210000	100	47.50	37.20	42.35	0
2002129	8.10.01-12.10.01	24000	24000	52000	52000	100	34.50	29.60	32.05	0
	Total			1919200	1995200	96%				

From the above table, it can be noted that the volume at CSE in the shares of the company was 19,95,200 shares and the selected stock brokers had contributed a volume of 19,19,200 shares, which was 96% of the total volumes at CSE during the investigation period.

6. I note that the stock broker's trades involved 5,10,000 shares (both buy & sell volume) of the company which accounted for nearly 25% of the total trading in the said shares at CSE during the investigation period. The stock broker had transacted in the settlements between 2002115 and 2002129, as stated below:

Settlement No.	Date of Transaction	Buy Qty	Sale Qty
2002115	7/2/2001	10000	10000
2002117	7/18/2001	16000	16000
	7/19/2001	16000	16000
2002118	7/24/2001	10000	10000
2002119	8/1/2001	10000	10000
	8/2/2001	10000	10000
2002120	8/6/2001	5000	5000
	8/8/2001	10000	10000
	8/10/2001	1000	1000
2002121	8/14/2001	10000	10000
	8/16/2001	35000	35000
2002123	8/27/2001	8800	8800
2002125	9/11/2001	31500	31500
2002126	9/18/2001	11700	11700
2002128	10/3/2001	40000	40000
	10/4/2001	30000	30000
		255000	255000

Thus, out of the fourteen settlements between 2002115 and 2002128, the stock broker had traded in ten settlements (Settlement No. 2002115, Settlement No. 2002117 to Settlement No. 2002121 and Settlement Nos. 2002123, 2002125, 2002126 and 2002128). Further, out of the total volume of 19,19,200 shares (contributed by the aforesaid three stock brokers), the stock broker had dealt in 5,10,000 shares of the company at CSE. I note that, the Enquiry Officer, based on the trading pattern, had come to a finding that the trading in the shares of the company by Swadha Securities Private Limited, M/s Ballabh Dass Daga and the stock broker had resulted in the fall in the share price of the company from Rs.63.50/- to Rs.37.20/-. The Enquiry Officer, after examining the trade and

order log pertaining to the stock broker, had also observed that the entire volumes of transactions were executed by way of matching transactions by which the order quantity, price and time were matched with both buying and selling clients belonging to the stock broker and that all the trades were cross deals between the clients of the stock broker. He further observed that all those matched trades were executed on a single terminal of the stock broker. The details of such trades were provided to the stock broker along with the show cause notice dated October 04, 2004 issued under Regulation 4 of the Enquiry Regulations. The stock broker did not dispute the execution of trades in the shares of the company.

7. It is not in dispute that the trades of the stock broker were in the nature of cross deals. Some of the cross deals executed by the stock broker in the shares of the company during the investigation period are given below:

Trade Dt	Trade Time	Traded Qty (shares)	Traded Rate(Rs.)	Buy/ sell	Order No	Order time	Order Qty (shares)	Order price(Rs.)
18/7/01	10.07.35	8000	63.50	B	420657606	10.07.34	8000	63.50
				S	420657604	10.07.10	8000	63.50
19/7/01	10.36.10	8000	63.50	S	511647936	10.36.10	8000	63.50
				B	511647939	10.36.18	8000	63.50
19/7/01	10.36.19	8000	63.50	B	511647942	10.36.18	8000	63.50
				S	511647937	10.36.00	8000	63.50
3/10/01	2..50.41	10000	44.00	S	390852441	2.49.57	10000	44.00
				B	390852445	2..50.40	10000	44.00
3/10/01	2..50.48	10000	44.00	S	390852446	2..50.48	10000	44.00
				B	390852442	2..50.04	10000	44.00
3/10/01	2..51.15	10000	44.50	B	390852448	2..51.15	10000	44.50
				S	390852443	2..50.12	10000	44.50
3/10/01	2..51.15	10000	44.50	S	390852444	2..50.32	10000	44.50
				B	390852449	2..51.27	10000	44.50
4/10/01	12.37.13	10000	44.00	S	390553058	11.40.31	10000	44.00
				B	390853212	12.37.12	10000	44.00
4/10/01	12.37.23	10000	44.00	B	390553214	12.37.22	10000	44.00
				S	390853059	11.40.45	10000	44.00

By these trades, the Broker was able to artificially depress the price of the shares of the company during the investigation. It is pertinent to note that, almost the entire trades in the shares of the company at CSE during the investigation period were executed by the stock brokers (including the stock broker) mentioned above in this order. What is more important is that the trades of the stock broker were cross deals. The stock broker was aware of the nature of the trades executed by its client (buy and sell). The stock broker should have doubted the intention of its client as there was not much trading interest in the shares of the company apart from the trades executed by the above mentioned stock brokers. Besides, the stock broker was executing cross deals almost regularly during the investigation period continuously at lower price. The trades of the stock broker also created misleading appearance of trades in the shares of the company in the securities market. The said trades were also not genuine. The cross deals were executed at a pre-determined price fixed by the parties to the trades. The stock broker became a necessary party by placing orders on both sides (buy and sell).

8. I further note that the stock broker had also admitted during the personal hearing before the Enquiry Officer that the trades executed by it in the shares of the company were client to client trades which had been executed on its terminal. Relevant observation made in the Enquiry Report in this regard is quoted below;

***“Qus: It is alleged that most of the trades in scrip Sharad Raj TradeFin Ltd. (STFL) executed by you during the period under scrutiny are client to client trades which have been executed on a single terminal of the broker. Please explain.*”**

Reply: Yes, I agree with the above statement.”

The findings of the Enquiry Officer have not been disputed by the stock broker before me.

9. The stock broker by indulging in cross/synchronized transactions had indulged in creating false and misleading appearance of trading in the shares of the company at CSE. By executing number of cross deals, the stock broker could artificially depress the share price of the company. In the facts and circumstances, I have no hesitation in holding the stock broker guilty of having contravened the provisions of Regulation 4 (a) and 4(b) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. The stock broker was responsible for the creation of a false market in the shares of the company by indulging in such activities. By entering into such manipulative transactions, the stock broker did not uphold the expected standards of integrity and fairness in its conduct. It also did not exercise due care while executing such transactions. Needless to say, the stock broker failed to act with due skill, care and diligence in the conduct of its business in respect of the transactions in the shares of the company during the period of investigation. By doing so, the stock broker had contravened the relevant provisions of law. Thus, the stock broker has contravened Regulation 7 read with Clauses A(1), A(2) and A(4) of the Code of Conduct prescribed for stock brokers under the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992. The violations committed by the stock broker call for a penalty.

10. I note that the Enquiry Officer had recommended a penalty of suspension of the certificate of registration of the stock broker for a period of six months. The stock broker did not dispute the findings of the Enquiry officer. Taking into consideration the facts and circumstances of the case in its totality, I am of the considered view that the ends of justice would be met if the certificate

of registration of the stock broker be suspended for the period as ordered herein under.

11. In view of the foregoing, I, 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, hereby, suspend the certificate of registration of the stock broker namely, M/s Basant Kumar Chirimar (Registration no. INB 030513217), Member, Calcutta Stock Exchange Association Limited for a period of one month.

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

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

Place: Mumbai

Date: August 12, 2009