

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 28 (2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 AGAINST M/S PURSHOTTAM LAL KEJIDIWAL IN THE MATTER OF BANKAM INVESTMENT LIMITED

1. In the wake of unusual price movement noticed in the shares of various companies (with low market capitalization) including Bankam Investment Limited (hereinafter referred to as the company) listed on Calcutta Stock Exchange Association Limited (hereinafter referred to as CSE), during June 2005 to September 2005, Securities and Exchange Board of India (hereinafter referred to as SEBI) conducted a preliminary analysis of trading data in respect of buying, selling, dealing in the shares of such companies. It was *inter alia* found that the average share price of the company increased from Rs.2.10/- (on June 09, 2005) to Rs.16.85/- (on September 16, 2005), an increase of 702%. The period between June 09, 2005 and September 16, 2005 is hereinafter referred to as the investigation period). It was *prima facie* observed that some of the stock brokers *inter alia* with the connivance of various clients executed substantial trades in the shares of the company and thereby *prima facie* created misleading appearance of trading in securities and ultimately resulted in the manipulation of the share price of the company. SEBI, *inter alia*, observed that various stock brokers *prima facie* violated the provisions of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as the PFUTP Regulations) and Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as the

Broker Regulations). In order to protect the interest of investors, SEBI, vide an ad-interim ex parte order dated September 29, 2005 *inter alia* directed various stock brokers not to buy, sell or deal in securities, in any manner, either directly or indirectly, till further directions. Subsequently, SEBI, after affording an opportunity of hearing to the aggrieved persons, vide order dated January 12, 2006, confirmed the directions passed vide ad-interim order dated September 29, 2005, as stated therein. The investigation conducted by SEBI observed that almost the entire trades in the shares of the company during the investigation period were executed by the stock brokers namely, Ms/ Rajendra Prasad Shah, M/s Badri Prasad & Sons and M/s Purshottam Lal Kejdiwal (Members, CSE). It was further observed that M/s Purshottam Lal Kejdiwal executed trades in the shares of the company involving 3,730 shares which accounted for 1.30% of the total volume in the shares of the company traded at CSE during the investigation period. M/s Purshottam Lal Kejdiwal is hereinafter referred to as the Broker. It was observed that the Broker had executed synchronised trades in the shares of the company, which accounted for 100% of its total trades in the shares of the company. The above trades of the Broker were *prima facie* in violation of the provisions of Regulation 4(2)(a), 4(2)(e) and 4(2)(o) of the PFUTP Regulations and Clauses A(1) to A(4) and B(4)(a) of the Code of Conduct specified in Schedule II of the Broker Regulations.

2. Accordingly, SEBI, vide order dated January 04, 2007 read with a subsequent order dated November 19, 2007 appointed an Enquiry Officer under 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 Enquiry Regulations) to enquire into the alleged violations committed by the Broker. The Enquiry Regulation was since repealed with effect from the notification of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008. The Designated Authority (hereinafter

referred to as the Enquiry Officer), after considering the facts and circumstances of the case and the materials available on record, submitted the Enquiry Report dated July 10, 2009 recommending the issuance of warning to the Broker. Pursuant to the submission of the Enquiry Report, a notice dated July 16, 2009 was issued by SEBI to the Broker asking it to show cause as to why the penalty as recommended by the Enquiry Officer or as considered appropriate should not be imposed against it. The Broker was also advised to inform whether it would like to avail the opportunity of hearing. The Broker vide letter dated July 18, 2009 *inter alia* submitted that “we have already given our submission vide letter dated January 14th, 2008 and we have nothing to say more in this matter”. Though, the Broker was specifically advised to inform in case he wished to avail a hearing, no response was made by him in respect of the same. Therefore, I do not consider it necessary to provide an opportunity of hearing to the Broker and the present proceeding is being dealt on the basis of the Enquiry report, the show cause notice dated July 16, 2009 issued to the Broker, its reply dated July 18, 2009 and other material available on record.

3. The issue for consideration in the present matter is whether the Broker violated the provisions of FUTP Regulations and the Broker Regulations, as observed by the Enquiry Officer. It is not in dispute that the average share price of the company at CSE had increased from Rs.2.10/- to Rs.16.85/- (a rise of 702%) during the relevant period. The trade details of the Broker in the shares of the company at CSE during the investigation period are as follows:

No. of shares bought	% to total buy volume at CSE	No. of shares sold	% to total sell volume at CSE	Total no. of shares	% to total buy and sale
3,730	2.60	0	0	3,730	1.30

4. The investigation conducted by SEBI observed that the trades of the Broker had substantial effect in raising the share price of the company from Rs. 2.10/- to Rs.16.85/- during the period June 09, 2005 to September 16, 2005. The investigation conducted by SEBI observed that all the trades of the Broker were synchronized trades with the stock broker namely M/s Badri Prasad & Sons.

5. The investigation conducted by SEBI observed that M/s Badri Prasad & executed large number of trades and was *prima facie* involved in the manipulation of the share price of the company. The Broker, by executing synchronised trades with the said stock broker facilitated the manipulation and also in the creation of misleading appearance of trading. The Broker had raised the share price of the company by a thin margin, during the investigation period. The details are given below:

Date	Previous day Closing price(Rs)	Opening Price (Rs)	Exchange volume	Volume created by Badri Prasad & Sons	% Increase in share price
31.08.2005	2.35	2.85	1000	500	21.3
01.09.2005	2.85	3.40	1000	500	19.3
02.09.2005	3.40	4.05	1000	500	19.1
09.09.2005	5.75	6.85	600	300	19.1
12.09.2005	6.85	8.20	2000	1000	19.7
13.09.2005	8.20	9.80	1000	500	19.5
14.09.2005	9.80	11.75	400	200	19.9
15.09.2005	11.75	14.05	460	230	19.6

6. It is amply clear in this case that the trades of the Broker had impacted the price of the shares of the company during the investigation period. The Broker was found to have placed both buy and sell orders of identical quantity and price in such a way that its buy orders matched with its corresponding sell orders resulting in trades. The details of the matching transactions of the Broker

in the shares of the company were provided to the Broker (along with the show cause notice issued by the Enquiry Officer). But the Broker did not controvert these transactions. On the other hand, the reply of the Broker was that its trades were as per the instructions of its clients. It would be pertinent to note that all its trades were synchronised trades. The large number of synchronised trades executed by the Broker in the shares of the company cannot be considered as one without any prior meeting of minds before its execution. Thus, the Broker was a necessary party in the execution of such pre planned trades. It cannot absolve itself from the liability. The Enquiry Officer had given detailed findings in respect of the violations committed by the Broker. Though, the copy of the Enquiry report was provided to the Broker, it has not taken any effort to controvert the findings of the Enquiry Officer. The fact that the Broker had executed various synchronised trades in the shares of the company would indicate the level of its involvement in the manipulation of the share price of the company. Thus, it can be concluded that the Broker contravened the provisions of Regulation 4(2)(a) and 4(2)(e) of the PFUTP Regulations. By entering into such deceptive transactions, the 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. Further, by placing orders in the nature of synchronised trades, the Broker had indulged in deceptive trade practices which distorted the market. Needless to say, the 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 Broker had contravened the relevant provisions of law. I, therefore have no hesitation in holding the Broker guilty for having contravened the provisions of Clause A(1), A(2), A(3) and A(4) of the Code of Conduct prescribed for stock brokers under Schedule II of the Broker Regulations.

7. Taking into consideration all the facts and circumstances of the case and

the available material on record, I do not find any reason to disagree with the Enquiry Officer. I note that the present case has been initiated under the provisions of the Enquiry Regulations. Though, the Enquiry Regulations was repealed with effect from the notification of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 anything done or any action (including enquiry) commenced under the Enquiry Regulations 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.

8. In view of the foregoing, in exercise of the powers conferred upon me under 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, the stock broker namely, M/s Purshottam Lal Kejdiwal [Registration No. 030488114], Member, The Calcutta Stock Exchange Association Limited is hereby strictly warned for violating the provisions of law which regulate its function as a registered intermediary of Securities and Exchange Board of India. The said stock broker is further directed to strictly abide by the laws, rules and regulations that govern its dealings in the securities market.

9. Accordingly, the present enquiry proceeding is disposed of.

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

Place: Mumbai
Date: August 17, 2009