

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA  
CORAM: DR. K. M. ABRAHAM, WHOLE TIME MEMBER**

**ORDER**

**UNDER REGULATION 28 (2) OF THE SECURITIES AND EXCHANGE  
BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 SALASAR  
STOCK BROKING LIMITED IN RESPECT OF ITS DEALING IN THE SHARES  
OF GLOBAL CAPITAL MARKET LIMITED**

Date of hearing: November 20, 2009

Appearance:

For Salasar Stock Broking Limited : Mr. Kiran Kumar Sonthalia, Director  
Mr. Amit Sonthalia

For Securities and Exchange Board of India : Mr. Jayanta Jash, General Manager  
Mr. Vijayakrishnan G., Deputy Legal Adviser  
Mr. Mrityunjaya Behera, Asst. 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 during the period June 17, 2005 to September 20, 2005 in some of the companies which were listed at the Calcutta Stock Exchange Association Limited (hereinafter referred to as CSE). Global Capital Market Limited (hereinafter referred to as the company) was one such company whose shares witnessed widespread speculative trading at CSE during the said period. In view of the alleged irregularities, the trading in the shares of the company 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. The investigation conducted by SEBI revealed that there was unusual price variation in the shares of the company during the above period. The share price of the company had increased from Rs.1.25/- (on June 17, 2005) to Rs.15.10/- (on September 20, 2005). The period from March 1, 2005 to September 2005 was taken as the investigation period. It was noted that during the above period the shares of the company were also traded at Bombay Stock Exchange Limited (BSE) and the share price at BSE had gone up from Rs.2.99/- on March 30, 2005 to Rs.10.45/- on September 16, 2005. SEBI, *inter alia*, observed that three stock brokers namely, M/s Sanju Kabra, A V Shares & Stock Brokers Private Limited and Shivam Stock Broking Private Limited had traded substantially in the shares of the company during the investigation period and their cumulative trades accounted for 91% of the total volume of the company at CSE and that they had *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). On the basis of the preliminary analysis of trading data, SEBI, vide an ad-interim ex-parte order dated September 29, 2005 *inter alia* directed the aforesaid stock brokers not to buy, sell or deal in securities, in any manner, either directly or indirectly, till further directions. Subsequently, the said ex-parte order was confirmed by SEBI, vide order dated January 12, 2006.

2. Salasar Stock Broking Limited (hereinafter referred to as the Broker) was found to have indulged in proprietary trades in the shares of the company during the investigation period through the stock broker A V Shares & Stock

Brokers Private Limited. Its total trades involved 10,95,700 shares of the company (96% of the total volume of A V Shares & Stock Brokers Private Limited), which amounted to about 30% of the total trades at CSE in the shares of the company during the investigation period. The Broker executed the said transactions at an average purchase price of Rs.6.75/- and the said shares subsequently were sold at an average price of Rs.1.55/- (during the period June 9, 2005 to June 23, 2005). It was alleged that the Broker had *prima facie* violated Clause A(5) of the Code of Conduct for stock brokers specified under Schedule II of the Broker Regulations. In order to enquire into the alleged violations said to have been committed by the Broker, an Enquiry Officer was appointed by SEBI, vide order dated January 30, 2008 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 (since repealed). Since, the aforesaid Regulations was repealed with effect from the notification of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, the Designated Authority (hereinafter referred to as the Enquiry Officer), vide Report dated December 22, 2008 recommended to drop the proceedings initiated against the Broker for the reasons stated therein. It was found that the Broker had executed its own trades through another stock broker *prima facie* to avoid regulatory compliance and thereby allegedly contravened the provisions of the Broker Regulations, as stated above in this order. Therefore, being *prima facie* not satisfied with the findings of the Enquiry Officer in respect of the alleged violations committed by the Broker, a notice dated September 10, 2009 was issued to the Broker advising it to show cause as to why penalty as considered appropriate should not be imposed against it. The Broker, vide letter dated September 29, 2009 *inter alia* stated that it had executed the transactions as an investor. The Broker further contended that, it had submitted a letter dated February 17, 2005 to CSE seeking permission to trade its platform through A V Shares & Stock Brokers Private Limited. The

Broker further stated that all the sell transactions were done after the deactivation of its terminals. Thereafter, an opportunity of hearing was granted to the Broker on November 20, 2009. Mr. Kiran Kumar Sonthalia, Director of the Broker and Mr. Amit Sonthalia appeared before me on behalf of the Broker and submitted that the Broker had executed the impugned proprietary trades through A V Shares & Stock Brokers Private Limited, in compliance with SEBI Circular dated January 13, 2004. The case of the Broker was that its trades were squarely covered under the aforesaid circular. The learned representatives further submitted that, though, the Broker, vide letter dated February 17, 2005, had sought the permission of CSE, as required, no response was received from CSE. They further submitted that the Broker cannot be blamed for the inaction on the part of CSE.

3. I have considered the Enquiry Report, the subsequent show cause notice issued to the Broker, its reply and the submissions made on behalf the Broker during the course of hearing. There is no dispute as regard the execution of trades involving 10,95,700 shares of the company through A V Shares & Stock Brokers Private Limited during the investigation period. The allegation leveled against the Broker is that by executing such transactions, it had violated the regulatory requirements. The contention of the stock broker is that, it had, as required under SEBI Circular dated January 13, 2004, sought the permission of CSE to trade through the aforesaid stock broker. According to the Broker, the reasons for such request was two:

- a. The trading terminal of the Broker was deactivated by CSE and;
- b. It was a requirement under SEBI Circular dated January 13, 2004.

4. In order to prove its bonafides, the Broker submitted the copy of its letter dated February 17, 2005 addressed to CSE. There was an acknowledgement from CSE in the said letter. In the said letter it was stated “..... At present, our trading terminal is not activated. We are desirous of doing transactions through M/s A V Shares & Stock Broking (Pvt.) Ltd. of 1, R.N. Mukherjee Road, Martin Burn Building, Kolkata-700001 who is a member of your Exchange having Code No. 615. Hence we hereby seek your kind permission for the same in terms of SEBI Circular No. SEBI/MIRSD/Cir-06/2004 dated January 13, 2004. Further we wish to inform you that the trades that would be entered by us would be “proprietary trades” i.e we would be transacting on our own account and no trades of client would be entered by us”.

5. The Broker relied upon the said letter while justifying its contention. However, the Broker could not produce any letter from CSE permitting it to execute proprietary trades as sought by the Broker. According to the Broker, CSE had not responded to its aforesaid letter. I note that SEBI circular dated January 13, 2004 *inter alia* stipulated that:

“3. With a view to address these concerns, stock exchanges are directed to ensure the following:-

3.1 A stock broker/sub broker of an exchange can not deal with brokers/sub brokers of the same exchange either for proprietary trading or for trading on behalf of clients, except with the prior permission of the exchange. The stock exchanges while giving such permission, shall consider the reasons stated by the brokers/sub brokers for dealing with brokers/sub brokers of the same exchange and after carrying out due diligence allow such brokers/sub brokers to deal with only one stock broker/sub broker of the same exchange.

3.2 A stock broker/sub broker of an exchange can deal with only one broker/sub broker of another exchange for proprietary trading after intimating the names of such stock broker/sub broker to his parent stock exchange.”

It is very clear that the proprietary trades of a stock broker through another stock broker of the same stock exchange required the permission of the said stock exchange, before its execution. Admittedly, the Broker and A V Shares & Stock Brokers Private Limited are the members of CSE. Thus, it is obligatory on the part of the Broker to obtain permission before executing proprietary trades through A V Shares & Stock Brokers Private Limited, as required under the aforesaid circular. The Broker should have obtained the permission of CSE, prior to the execution of trades through A V Shares & Stock Brokers Private Limited. It did not do so. Therefore, the contention of the Broker that its duty was merely to intimate the stock exchange would not deserve any merit and the same is liable to be rejected. As per the said circular, the question of intimation would arise, if a stock broker trades through the stock broker/sub broker of another stock exchange. No further steps were taken by the Broker to obtain the permission from CSE. In view of the above, the execution of proprietary trades by the Broker through another stock broker of CSE without obtaining prior permission of CSE is in violation of the aforesaid circular. In terms of Clause A(5) of the Code Conduct, a stock broker shall abide by the Rules and Regulations. In the facts and circumstances of the case, I do not have hesitation in holding that the Broker had violated Clause A(5) of the Code of Conduct for stock brokers specified under Schedule II of the Broker Regulations. The contention of the Broker is that CSE had not responded to its letter seeking permission to trade through A V Shares & Stock Brokers Private Limited. I also note the submission of the Broker that it had executed the sell transactions (during the investigation period) in the month of June 2005, whereas its aforesaid letter to CSE was dated February 17, 2005. Considering the case in its totality, I dispose of the present enquiry proceeding initiated against the Broker in respect of its dealings in the shares of the company during the investigation period, as ordered hereinunder, in terms of the provisions of Securities and Exchange Board of India (Intermediaries) Regulations, 2008.

6. In view of the foregoing, 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, the stock broker, Salasar Stock Broking Limited (Member, Calcutta Stock Exchange Association Limited), is hereby warned for the violations observed herein and directed to strictly abide by laws, rules and regulations which govern its dealings in the securities market .

7. Accordingly, the present enquiry proceeding initiated against Salasar Stock Broking Limited in respect of its dealings in the shares of Global Capital Market Limited is disposed of.

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

**Place: Mumbai**

**Date: November 23, 2009**