

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: PRASHANT SARAN, WHOLE TIME MEMBER**

**IN THE MATTER OF CYBERSPACE MULTIMEDIA LIMITED
IN RESPECT OF ARIHANT STOCKS LTD.**

(SEBI Registration No. INB 081009238)

ORDER

**UNDER REGULATION 28(2) OF THE SEBI (INTERMEDIARIES) REGULATIONS,
2008**

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted an investigation into buying, selling and dealing in the scrip of Cyberspace Multimedia Ltd. (hereinafter referred to as 'Cyberspace') for the period September 18, 2000 to December 8, 2000, on the possibility of price manipulation in the scrip. During this period, the price of the scrip increased from Rs.8.00 on September 18, 2000 to Rs.60.00 on December 8, 2000. The scrip of the Cyberspace was listed on Bangalore Stock Exchange (hereinafter referred to as 'BgSE'), Bombay Stock Exchange (hereinafter referred to as 'BSE') and Calcutta Stock Exchange (hereinafter referred to as 'CSE').
2. The investigation *prima facie* revealed that persons connected with the company, its directors, major shareholders and their affiliates had tried to manipulate the price of the scrip. It was further revealed that the brokers of CSE were found trading on BSE through the brokers of BSE. It was revealed that some clients have placed large buy-orders some of which were deleted after a small part is executed, by adopting this methodology, some entities had tried to create buying depth in the scrip which attracted other investors in the scrip.
3. Arihant Stocks Ltd. (hereinafter referred to as 'noticee'), registered with SEBI as stock broker, bearing Registration No. INB 081009238 and member of BgSE, while trading bought 1,69,180 shares and sold 70,173 shares. It was found that director of the noticee had another membership on CSE, in the

name of S.P. Rakhecha & Co. where it bought 23,885 shares and sold 1,16,942 shares. Noticee was also found trading on BSE through Nirmal Bang Securities Pvt. Ltd. as sub-broker bought 38,011 shares and sold 16,901 shares.

4. Based on the findings of the investigations, SEBI vide order dated November 05, 2003, appointed an Enquiry Officer under Regulation 5(1) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as 'Enquiry Regulations'), to enquire into the alleged violation of the provisions of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as 'SEBI Act'), SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations') and Regulations 7 read with Clause A (1), (2), (3), (4) and (5) of the Code of Conduct specified under Schedule II of the SEBI (Stock Brokers and Sub-Broker) Regulation, 1992 (hereinafter referred to as 'Broker Regulations'). The Enquiry Officer submitted his report dated September 20, 2005 in terms of Regulation 13(1) of Enquiry Regulations recommending thereby a penalty of censure to noticee for violating Section 12 of SEBI Act.
5. Subsequently, a Show Cause Notice (hereinafter referred to as 'SCN') dated October 11, 2005, under Regulation 13(2) of Enquiry Regulations was issued by SEBI to the noticee, asking it to show cause as to why action as recommended by the Enquiry Officer should not be imposed. The noticee was advised to reply to the SCN within fifteen days of the receipt thereof. It was also informed that in case of failure, it would be presumed that it had no explanation to offer and SEBI shall be free to take such action in the manner as it deemed fit. A copy of the Enquiry Report was also forwarded to the noticee along with the said SCN.
6. The noticee replied to the SCN vide its letter dated June 19, 2006 and preferred to rely upon the reply to the Enquiry Officer and requested for dropping of proceedings. I note that noticee vide this letter also stated that it

would not require any further opportunity of being heard, hence I proceeding further with the matter.

7. I have carefully considered the Enquiry Report, the SCN issued to the noticee and the reply. Of the three charges against the noticee, the Enquiry Officer has opined that charges of violation of Regulation 4 of PFUTP Regulations and the Broker Regulations are not established as there is no material available in the show cause notice to prove that noticee which was an independent artificial juridical person was having membership in the name of M/s S.P. Rakhecha & Co. on CSE. I tend to agree with the views of the Enquiry Officer. I note that the noticee has not denied that it had never dealt through the broker Nirmal Bang Securities Pvt. Ltd. as sub-broker without registration.
8. I note that in terms of Section 12 of SEBI Act, *inter alia* no sub-broker shall buy, sell or deal in securities except under, and in accordance with the conditions of a certificate of registration obtained from SEBI. The requirement was also incorporated under the provisions of Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Rule, 1992 (since repealed). SEBI vide Circulars dated March 14, 1996 had advised the stock exchanges that:

“It is felt that a large number of sub-brokers still are not registered with SEBI and therefore carrying out their activities without any valid legal sanction. SEBI at its end has started returning all incomplete applications directly to the applicants. Those who were already in the business of sub-broking and had applied for registration before 21st May, 1992 are being advised to re-submit their applications complete in all respects within two months failing which it shall be construed that they are acting as sub-brokers without holding certificates of registration in violation of section 12(1) of SEBI Act, 1992. The applicants who had applied after 21st May, 1992, are being advised to stop the business of sub-broking immediately which can be re-started after they are duly registered with SEBI.”

Further, SEBI vide circular dated January 16, 1998, advised that the members of the stock exchanges who are acting as sub-brokers through the members of other exchanges should obtain certificate of registration from

SEBI to act as a sub-broker. It is pertinent to note that, SEBI vide circular dated January 15, 2001 advised the stock exchanges to inform the stock brokers that their sub-brokers are permitted to start business only after clearance and receipt of registration certificate from SEBI. In view of these, the noticee was not supposed to act a sub-broker without obtaining registration from SEBI.

9. In view of the present facts and circumstances of the case, I have no hesitation to hold that the noticee had acted as unregistered sub-broker in violation of Section 12 of SEBI Act. Thus, I am in agreement with the findings and the recommendation of the Enquiry Officer. In view of the above, I dispose of the present Enquiry proceedings as ordered herein below.
10. I note that pursuant to the notification of the SEBI (Intermediaries) Regulations, 2008, the Enquiry Regulations have been repealed and in terms of Regulation 38(2) of the SEBI (Intermediaries) Regulations, 2008, notwithstanding such repeal, any enquiry commenced under the Enquiry Regulations, shall be deemed to have been commenced under the corresponding provisions of SEBI (Intermediaries) Regulations, 2008.
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 warn the noticee, Arihant Stocks Ltd., Member, Bangalore Stock Exchange (SEBI Registration No. INB 081009238), to be careful and cautious in the conduct of its business and to adhere to and comply with all the statutory provisions while carrying out its activities in the securities market.

DATE : DECEMBER 02, 2009
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA