

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 28 (2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 IN THE MATTER OF S. JHUNJHUNWALA & CO. IN RESPECT OF ITS DEALINGS IN THE SHARES OF S. T. SERVICES LIMITED

1. In the wake of unusual price movement noticed during March 18, 2005 to September 16, 2005 (hereinafter referred to as the investigation period) in the shares of various companies including S. T. Services Limited (hereinafter referred to as the company) listed on Calcutta Stock Exchange Association Limited (hereinafter referred to as CSE), Securities and Exchange Board of India (hereinafter referred to as SEBI) conducted investigations into the buying, selling and dealing in the shares of such companies. It was *inter alia* observed that the stock brokers, M/s Ram Mohan Sarda and M/s S. Jhunjhunwala & Co (hereinafter referred to as the Broker) had executed cross deals/synchronised trades in the shares of the company which *prima facie* resulted in the manipulation of the shares of the company and thereby contravened Regulation 4(2)(a), 4(2)(e) and 4(2)(o) 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 Clauses A(1) to A(4) and Clause B(4)(a) of the Code of Conduct specified in Schedule II of the 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, SEBI, vide an ad-interim ex-parte order dated September 29, 2005 *inter alia* directed the Broker, not to buy, sell or deal in securities, in any manner, either directly or indirectly, till further directions. The said directions which were confirmed by SEBI (vide order dated January 12, 2006) were subsequently vacated, vide order dated August 11, 2008. The major findings of the investigation were that most of their (aforesaid stock brokers) trades

were client to client which have been executed on a single terminal of the same stock broker. It was observed that the matched trades executed by the said stock brokers consequently, led to the price rise and manipulation in the shares of the company. Thereafter, SEBI, vide order dated September 20, 2006 read with a subsequent order dated November 23, 2007 appointed an Enquiry Officer under the then applicable 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 Designated Authority (hereinafter referred to as the Enquiry Officer) submitted the Report (hereinafter referred to as the Enquiry Report) dated August 24, 2009 in terms of the provisions of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 and recommended that the certificate of registration of the Broker be suspended for a period of one month. The Enquiry Officer further observed that the recommended period of suspension may be set off against the period of prohibition already undergone by the Broker in terms of the aforesaid SEBI orders. Thereafter, a show cause notice dated August 28, 2009 was issued by SEBI to the Broker. A copy of the Enquiry Report was also forwarded to the Broker with the show cause notice. The Broker was further advised to inform whether it would like to avail of an opportunity for hearing. As the Broker had not filed any reply, SEBI, vide letter dated October 14, 2009 gave a further period of fifteen days to the Broker to file its reply. Thereafter, the Broker, vide letter dated December 8, 2009 stated that it was already debarred from the securities market for a period of thirty five months in respect of its dealings in the shares of the company. The Broker further stated *"We accept the verdict passed for the matter"*. Though, the Broker was specifically advised to inform in case he wished to avail a hearing, no response was made by it. 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 August 28, 2009 issued to the Broker, its reply dated December 8, 2009 and other material available on record.

2. I note that the shares of the company witnessed a sharp increase during the investigation period. The price rose from Rs.12.10/- on March 18, 2005 to Rs.96.50/- on September 16, 2005. It was observed that the trades of stock brokers, namely, M/s Ram Mohan Sarda and the Broker accounted for around 53.86% of the total trading in the shares of the company at CSE during the period of investigation. The Broker was found to have transacted in 4,76,005 shares of the company contributing to around 12.17% of the total trading volume in the said shares at CSE, as given below:

Trading Data					
No. of shares bought	% to Total Buy	No. of shares sold	% to Total Sell	Total no. of shares	% to Total Buy & Sell
2,44,305	12.50	2,31,700	11.85	4,76,005	12.17

It was further observed that, out of the 4,76,005 shares traded by the Broker in the shares of the company, trading in 1,98,455 (41.6%) shares were in the nature of 'cross deals' and 'synchronized trades' as mentioned below:

Name of the stock broker	M/s Ram Mohan Sarda		Broker	
	Qty (shares)	%	Qty (shares)	%
Broker	1,74,455	36.6%	2,40,00	5%

3. The Enquiry Officer had observed that the share price of the company had increased without any apparent justification during the period of Broker's trades. The Enquiry Officer had also observed that the Broker should have acted with caution and due care and that it had violated Regulation 4(2)(o) of the PFUTP Regulations and Clauses A(2) and B4(a) of the Code of Conduct as specified in Schedule II of the Broker Regulations. Though, the copy of the Enquiry Report was provided to the Broker, it did not dispute or controvert the findings/observations made therein. The Broker in its letter dated December 8, 2009 accepted the 'verdict'. In view of the above, I do not consider it necessary to reiterate the violations committed by the

Broker while dealing in the shares of the company during the investigation period. In the facts and circumstances, it is established that the stock broker violated Regulation 4(2)(o) of the PFUTP Regulations and Clauses A(2) and B(4)(a) of the Code of Conduct specified under Schedule II of the Broker Regulations, as observed by the Enquiry Officer. Accordingly, the present proceeding is disposed of in terms of the provisions of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, as ordered herein below.

4. In view of the foregoing, I, 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, hereby, suspend the certificate of registration of the stock broker, S. Jhunjhunwala & Co. {Member, Calcutta Stock Exchange Association Limited (Registration no. INB 031166110)}, for a period of one month. However, in view of the period of prohibition already undergone by S. Jhunjhunwala & Co. in terms of Securities and Exchange Board of India orders dated September 29, 2005 and January 12, 2006 in respect of its dealings in the shares of S.T. Services Limited, the aforesaid stock broker would be deemed to have undergone the penalty.

DR. K. M. ABRAHAM

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA

PLACE: MUMBAI

DATE: DECEMBER 29, 2009