

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

IN THE MATTER OF VALUENOTES.COM

In respect of M/s. Khandwala Integrated Financial Services Pvt. Ltd.

(SEBI Registration No. INB 230776034)

ORDER

**Under Regulation 28(2) read with Regulation 38 (2) of Securities and Exchange
Board of India (Intermediaries) Regulations, 2008**

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') had conducted investigation in the matter of misleading advertisements/ advices/ recommendations issued by a stock analyst on the website www.valuenotes.com (hereinafter referred to as 'Valuenotes'/ 'website') upon receipt of a complaint from an investor. On receipt of the complaint, SEBI advised National Stock Exchange (hereinafter referred to as 'NSE') to examine the recommendations made on the website relative to the trading activity on its systems. NSE observed suspicious trading activity involving common clients across brokers. Based on the observation, an inspection was conducted of the offices of the brokers enrolling such common clients. Investigation was conducted *inter-alia* to ascertain possible violation of the provisions of 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 SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as 'Broker Regulations') by the persons dealt.
2. Investigation *inter alia* revealed that the trading activities of Khandwala Integrated Financial Services Pvt. Ltd. (hereinafter referred to as 'noticee') registered with SEBI as a stock broker bearing SEBI Registration no. INB 230776034, while trading for its clients namely Mr. Kamal Dalal and Ms.

Kinnari Khandwala in the scrips of VIP Industries, Archies Industries Ltd., BGFL, Amaraja Battery and Dabur, were surrounded around the tips/ investment advice given on the Valuenotes by a stock analyst namely Mr. Anirudh Sethi. Further, the clients of the noticee were found to have hands in glove with Anirudh Sethi and used the strategy of pump and dump, thereby leaving the genuine investors stranded with the scrips while the perpetrators had exited the scrips. This strategy had benefited Anirudh Sethi in getting mileage from the fact of some buying activity prior to his recommendations so that the investors could be lured by the impending price rise in the scrip.

3. The clients of the noticee were benefited from the entry and exit price of the scrip. The clients used to buy the scrip when price was low and then sell the scrip when the price was increased due to the trading activity of the investors pursuant to Anirudh Sethi's advice on the website. This difference in price combined with the volume being dealt in by these clients was incentive enough for the trading strategy. This strategy deployed by the duo of Anirudh Sethi and the stated clients of the noticee, succeeded in building investor interest in the scrips and luring the investors into buying into the scrip and at the same time exiting the scrip in a day or two ensured that the investors were left stranded with the scrips while the perpetrators had exited the scrip.
4. The investigations also revealed that the clients of the noticee were known and found related to each other. Anirudh Sethi and Kamal Dalal knew each other on family terms and were friends. Anirudh Sethi used to share the information of the scrips that he was about to recommend in the coming days on Valuenotes. On the basis of these recommendations Kamal Dalal, Ms. Kinnari Khandwala (wife of Mr. Jayesh Khandwala who is the brother of Mr. Vimal Khandwala, director of noticee) and others bought the shares. It was revealed that on the day of recommendations Kamal Dalal, Ms. Kinnari Khandwala and others exited these shares when the prices ramped up due to the trading activity of the investors pursuant to the advice of Anirudh Sethi on Valuenotes and booked profit. This strategy deployed by Anirudh Sethi,

Kamal Dalal and Ms. Kinnari Khandwala was found to be aided by the noticee.

5. Based on the findings of the investigations, SEBI initiated enquiry proceedings as against the noticee in terms of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as 'Enquiry Regulations'), by appointing an Enquiry Officer under Regulation 5(1) of Enquiry Regulations vide order dated September 05, 2006 and subsequent order dated July 19, 2007. SEBI appointed the Enquiry Officer, to enquire into the alleged violation of the provisions of the PFUTP Regulations and Broker Regulations. As the Enquiry Regulations were repealed with effect from the notification of SEBI (Intermediaries) Regulations, 2008, the Enquiry Officer/ Designated Authority (hereinafter referred to as the Enquiry Officer) submitted his Report dated December 12, 2008, in terms of Regulation 27 of SEBI (Intermediaries) Regulations, 2008 recommending thereby warning to noticee for violating the Code of Conduct specified under Schedule II of the Broker Regulations.
6. Subsequently, a Show Cause Notice dated July,02 2009 (hereinafter referred to as 'SCN'), under Regulation 28(1) of Intermediaries Regulations was issued by SEBI to the noticee, asking it to show cause as to why the appropriate penalty including penalty recommended by the Enquiry Officer should not be imposed. The noticee was advised to reply to the SCN, together with the documents that it may choose to rely upon in support of its reply within twenty one 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.
7. The noticee replied to the SCN vide its letter dated July 20, 2009 and sought a personal hearing. Accordingly, an opportunity of personal hearing was granted to the noticee before me on November 02, 2009. However, noticee

vide its letter dated October 05, 2009, waived its right for personal hearing and preferred to rely on its earlier replies and submissions.

- 8.** I have carefully considered the findings of the investigation, Enquiry Report, SCN issued to the noticee and replies to the SCN and material available on record. The main submissions of noticee in its reply, in brief, are:
- a.** Was not aware of the alleged strategy deployed, by the clients.
 - b.** Was not privy to or aware of any alleged information/ tips/ investment advice/ recommendations/ the reason/ investment strategy on the basis of which the said clients choose to trade or the timing of such trades.
 - c.** Not done any proprietary trading based on the trading pattern of its clients.
 - d.** Trading done in individual account of Kinnari Khandwala was an individual decision taken by her and/ or Jayesh Khandwala. It was never informed of the reasons for any of their investment decisions.
 - e.** Being a broking firm was totally distinct from Jayesh Khandwala and Kinnari Khandwala.
 - f.** Was never aware of or privy to the recommendations or information of Anirudh Sethi.
 - g.** That the trading pattern of the clients was consistent in all scrips in which they dealt, including the impugned trades/ scrips. Further, these clients had dealt in large variety of scrips and had considerable trading turnover.
 - h.** There was no reason/ basis/ justification for it to cross examine the said clients/ their reasons/ motives for their investment decisions.
 - i.** Neither Jayesh Khandwala nor Kinnari Khandwala is/ has ever been the directors of the noticee.
 - j.** Its SEBI registration no. is/ was INB 230776034.
- 9.** I note that the Enquiry Officer has dropped the charge of violation of PFUTP Regulations as against the noticee. However, the noticee has been found guilty of violating the Code of Conduct specified under Schedule II of the

Broker Regulations, as it has failed to exercise due skill, care and diligence in the conduct of business. In view of this the sole issue remains for consideration in this matter is whether the noticee has failed to exercise due care and diligence while dealing for its related client.

- a. I note that, the Enquiry Officer has not found any instance of manipulative intent on behalf of the noticee, while executing the trades on behalf of its clients. I note that the director of the noticee, Jayesh Khandwala and Kinnari Khandwala are all family members. However the noticee has time and again submitted that these were trading in the capacity of client only and were never on its board.
- b. This submission of the noticee is worth considering in light of the statement of the noticee on March 14, 2005 before the Investigating Authority. I have seen this statement of the noticee, and find that Jayesh Khandwala had appeared before the Investigating Authority in the capacity of its authorized signatory. This directly gives the impression that Jayesh Khandwala was having close association with the affairs of the noticee at the relevant period of time.
- c. In view of this, I fail to agree with the finding of the Enquiry Officer that Jayesh Khandwala was not associated with the noticee. Further, I observe that Jayesh Khandwala was playing a crucial role as stated above while trading for his wife Ms. Kinnari Khandwala, client of the noticee in collusion with Kamal Dalal on the tips received from Anirudh Sethi.
- d. I note that the noticee, while acting in the capacity of broker should have exercised due skill, care and diligence while allowing Jayesh Khandwala to trade on behalf of his wife who was also a authorized signatory of the noticee. Thus, I find that the noticee has failed to perform its duties as specified in the code of conduct for stock brokers in the Broker Regulations.

- 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.** Taking into the facts and circumstances of the case, 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 Khandwala Integrated Financial Services Pvt. Ltd. (SEBI Registration No. INB 230776034), member, National Stock Exchange 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 : 1/2/2010
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA