

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

IN THE MATTER OF BAFFIN ENGINEERING PROJECTS LTD.

In respect of Sanghavi Brothers Brokerage Ltd.

(SEBI Registration No. INB 010992132)

Date of hearing: February 05, 2010

Appearances

For Noticee: Mr. Prakash Shah, Advocate
Mr. Kamlesh Sanghavi, Director

For SEBI: Mr. G. Ramar, Deputy General Manager
Mr. Lamber Singh, Manager
Mr. Pradeep Kumar, Legal Officer
Mr. Rajeev Rastogi, Presenting Officer

ORDER

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

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted investigation into the buying, selling or dealings in the scrip of Baffin Engineering Projects Ltd. (hereinafter referred to as 'Baffin') for the period January 15, 2001 to August 31, 2001. During the time of investigation the scrip of Baffin was listed on Bombay Stock Exchange (hereinafter referred to as 'BSE') and Ahmedabad Stock Exchange (hereinafter referred to as 'ASE').
2. The trading details of the persons who had traded in the scrip were collected and analyzed along with the data of the volumes contributed by entities traded during the relevant period. During the period of investigation, the price of the scrip had increased from Rs.61/- on January 15, 2001 to Rs.219.40/- on August 16, 2001 and closed at Rs.210/- as on August 31, 2001.

3. During the course of investigation, it was *inter alia* revealed that Sanghavi Brothers Brokerage Ltd. (hereinafter referred to as 'noticee'), registered with SEBI as stock broker, bearing registration no. INB 010992132 had dealt in the scrip of Baffin and executed synchronized trades on behalf its client namely Paragon Investments Pvt. Ltd. (hereinafter referred to as Paragon).
4. Based on the findings of the investigations, SEBI initiated enquiry proceedings 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 November 14, 2006, read with subsequent order dated November 23, 2007. SEBI appointed the Enquiry Officer, to enquire into the alleged violation of the provisions of the 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 As the Enquiry Regulations were repealed with effect from the notification of SEBI (Intermediaries) Regulations, 2008, the Enquiry Officer/ Designated Authority (hereinafter referred to as the Enquiry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 September 23, 2009, in terms of Regulation 27 of SEBI (Intermediaries) Regulations, 2008 recommending thereby strict warning to noticee for violating Clause A (1) and (2) of Code of Conduct specified under Schedule II of the Broker Regulations.
5. Subsequently, a Show Cause Notice dated October 06, 2009 (hereinafter referred to as 'SCN'), under Regulation 13(2) of the Enquiry Regulations read with Regulation 28(1) of SEBI (Intermediaries) Regulations, 2008 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 his reply 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 December 22, 2009 and requested for an opportunity of personal hearing. Accordingly, an opportunity of personal hearing was also granted to the noticee before me on February 05, 2010. On the date fixed Mr. Prakash Shah, Advocate and Mr. Kamlesh Sanghavi, Director of noticee, appeared before me and reiterated the submissions made vide letter dated December 22, 2009, along with other submissions. During the course of hearing the noticee also filed some documents which were taken on record. The submissions of noticee in brief, are:

- Orders were placed as per the instruction of the client 'Paragon'.
- Have not done any self trade or traded in self account.
- Volumes were very small.
- Was not aware that Paragon was trading through El Dorado (counterparty broker) too.
- Contribution to trading was only 9% of the market volume.
- Had merely executed orders of the clients on BOLT, without knowing the timings of the orders of the counterparty.
- Have no relationship with counterparty broker. No relation with client except broker-client.
- Client was trading in other scrips too and its volume of transactions in subject scrip was very low and insignificant.
- Had maintained high standard of integrity, promptitude and fairness in the conduct of all business.
- At the time of punching the order in live market conditions, it is not possible to know what will be the market volume of the day in a scrip.
- Had stopped trading with Paragon when came to know of its dealings from BSE.

7. I have carefully considered the Enquiry Report, the SCN issued to noticee and reply thereof. The noticee has argued that while punching order in live market conditions, it is not possible to know the total market volume of the day. I note that at the end of trading day the broker can get to know about the total traded volume in the scrip and at the same time the broker has the knowledge about its own trades in the scrip. In the present case the client of the noticee was trading regularly during the period and it had the knowledge about the traded volumes of the client. In view of this, I find no merits in the argument of the noticee.
8. While proceeding further with the matter, the short issue that arises for my consideration is whether the noticee has violated the provisions of Regulation 7 read Clauses A (1) and (2) of the Code of Conduct as specified in schedule II of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.
- a. I note that the noticee had acted in the scrip of Baffin on behalf of its client Paragon. During the relevant period, Paragon was also found trading with other brokers as a client. Paragon was acting as ultimate client for noticee as well as for the counter party broker by placing buy orders through one broker and sale orders through another broker. The table below shows the trading details of trades executed on behalf of Paragon by the noticee and counter party broker during the relevant period of time:

Date	El Dorado Guarantee Ltd.			Sanghavi Brothers Brokerage Ltd.			Settlement Obligation of two brokers (El Dorado & Sanghvi Bros.) in corresponding Settlement		Total Gross Qty.	Total Qty. traded	Total Gross Qty. of brokers herein as % of Total Qty. traded
	Gross Purchases	Gross Sales	Net Qty.	Gross Purchases	Gross Sales	Net Qty.					
16/1/2001		500	-500	500		500	43	Nil	500	3100	16.13%
17/1/2001	1000	1300	-300	1300	1000	300			2300	2900	79.31%
18/1/2001	1200		1200		1200	-1200			1200	2900	41.38%
19/1/2001	900	1300	-400	1300	900	400			2100	2400	87.50%
22/1/2001	300		300		300	-300	44	Nil	300	700	42.86%
23/1/2001	1500	1000	500	1000	1500	-500			2500	2600	96.15%

24/1/2001	600	2100	-1500	2100	600	1500			2700	2700	100.00%
25/1/2001	700		700		700	-700			700	22600	3.10%
30/1/2001	1100	1300	-200	1300	1100	200	45	Nil	2400	3100	77.42%
1/2/2001	1900	1600	300	1600	1900	-300			3700	4000	92.50%
2/2/2001	1200	1300	-100	1300	1200	100			2500	3400	73.53%
5/2/2001	400	2000	-1600	2000	400	1600	46	200	2800	3600	77.78%
6/2/2001	500	300	200	300	500	-200			800	800	100.00%
8/2/2001	800		800		800	-800			800	800	100.00%
9/2/2001	800		800		800	-800			800	1800	44.44%
12/2/2001	600	600		600	600		47	Nil	1200	1200	100.00%
13/2/2001		100	-100	100		100			100	100	100.00%
14/2/2001	100	100		100	100				200	200	100.00%
15/2/2001	100	100		100	100				200	200	100.00%
16/2/2001	100		100		100	-100			100	200	50.00%
19/2/2001	300		300		300	-300	48	100	300	400	75.00%
20/2/2001		300	-300	300		300			800	1200	66.67%
22/2/2001	400		400		400	-400			400	400	100.00%
23/2/2001	300	300		300	300				600	600	100.00%
26/2/2001	1800	500	1300	500	1800	-1300	49	Nil	2300	2600	88.46%
27/2/2001		100	-100	100		100			100	100	100.00%
28/2/2001	1000		1000		1000	-1000			1000	4500	22.22%
1/3/2001		700	-700	700		700			700	700	100.00%
2/3/2001		1100	-1100	1100		1100			1100	1500	73.33%
5/3/2001	300	1800	-1500	1800	300	1500	50	100	2100	2100	100.00%
7/3/2001		300	-300	300		300			300	500	60.00%
8/3/2001	1800	100	1700	100	1800	-1700			1900	2000	95.00%
9/3/2001	200		200		200	-200			200	400	50.00%
13/3/2001	600	600	-100	600	500	100	51	100	1100	1600	68.75%
14/3/2001	1500	1500	0	1500	1500	0			3000	3200	93.75%
Total	10200	10300	-100	10300	10200	100	Nil		43800	81100	65.38

b. The trades as detailed above appeared to be circular in nature which gives rise to reversal of trades without any change in beneficial ownership, for example, on January 24, 2001, the total traded quantity was 2,700 shares and these entire 2,700 shares were traded between the noticee and the counter party broker El Dorado. I note that the noticee had traded for its client from January 16, 2001 to March 14, 2001 and during this period it had executed trades from the price level of Rs.61/- to Rs.128/-. There was almost no delivery due to client/ broker, further in most of the trades there were no delivery in comparison of the volume traded.

c. I observe that the noticee while trading for Paragon had executed 185 trades, which together with the trades of counterparty broker accounted for 65.38% of the gross traded quantity on the days when such trades were observed. Further, out of the 35 days on which the trades had taken

place, on 12 days the trading volume of noticee along with the counter party broker was 100% of the volume traded in the market, which indicates that there was no other trader in the scrip on those days.

- d. I note that on all the said 35 days, the client of the noticee has traded so as to synchronize the buy orders as well as the sale orders with the orders of the counter party broker. The table below shows the pattern of trading of the client of the noticee on sample basis in the scrip of Baffin:

Trade date	Buy					Sell					Trade Time	Time Diff.
	Member Code	Client Code	Qty .	Price	Time	Counter party Code	Client Code	Qty.	Price	Time		
17-Jan-01	D0061	Paragon	100	61	9:56:53	D0141	Paragon	100	61	9:57:22	09:57:22	0:00:29
17-Jan-01	D0141	Paragon	100	71.1	10:11:36	D0061	Paragon	100	71.1	10:13:35	10:13:36	0:01:59
17-Jan-01	D0141	Paragon	100	71.1	10:11:36	D0061	Paragon	100	71.1	10:13:35	10:13:36	0:01:59
17-Jan-01	D0141	Paragon	100	71.1	10:11:36	D0061	Paragon	100	71.1	10:13:35	10:13:36	0:01:59
17-Jan-01	D0141	Paragon	100	71.1	10:11:36	D0061	Paragon	100	71.1	10:13:35	10:13:36	0:01:59
17-Jan-01	D0141	Paragon	100	71.1	10:11:36	D0061	Paragon	100	71.1	10:13:35	10:13:36	0:01:59
17-Jan-01	D0141	Paragon	100	71.1	10:11:36	D0061	Paragon	100	71.1	10:13:35	10:13:36	0:01:59
17-Jan-01	D0141	Paragon	100	71.1	10:11:36	D0061	Paragon	100	71.1	10:13:35	10:13:36	0:01:59
17-Jan-01	D0141	Paragon	100	71.1	10:11:36	D0061	Paragon	100	71.1	10:13:35	10:13:36	0:01:59
17-Jan-01	D0141	Paragon	100	71.1	10:11:36	D0061	Paragon	100	71.1	10:13:35	10:13:36	0:01:59
17-Jan-01	D0141	Paragon	100	71.1	10:11:36	D0061	Paragon	100	71.1	10:13:35	10:13:36	0:01:59
17-Jan-01	D0141	Paragon	100	69	9:59:20	D0061	Paragon	100	69	10:07:58	10:07:58	0:08:38
17-Jan-01	D0141	Paragon	100	68	9:59:17	D0061	Paragon	100	68	10:08:29	10:08:30	0:09:12
17-Jan-01	D0141	Paragon	100	67	9:57:57	D0061	Paragon	100	67	10:08:56	10:08:57	0:10:59
17-Jan-01	D0061	Paragon	100	71.1	14:01:26	D0141	Paragon	100	71.1	14:18:54	14:18:54	0:17:28
17-Jan-01	D0061	Paragon	100	71.1	14:01:26	D0141	Paragon	100	71.1	14:18:54	14:18:54	0:17:28
17-Jan-01	D0061	Paragon	100	71.1	14:01:26	D0141	Paragon	100	71.1	14:18:54	14:18:54	0:17:28
17-Jan-01	D0061	Paragon	100	71.1	14:01:26	D0141	Paragon	100	71.1	14:18:54	14:18:54	0:17:28
17-Jan-01	D0061	Paragon	100	71.1	10:28:36	D0141	Paragon	100	71.1	11:37:32	11:37:32	1:08:56
17-Jan-01	D0061	Paragon	100	71.1	10:28:36	D0141	Paragon	100	71.1	11:37:32	11:37:32	1:08:56
17-Jan-01	D0061	Paragon	100	71.1	10:28:36	D0141	Paragon	100	71.1	11:37:50	11:37:50	1:09:14
17-Jan-01	D0061	Paragon	100	71.1	10:28:36	D0141	Paragon	100	71.1	11:37:50	11:37:50	1:09:14
17-Jan-01	D0061	Paragon	100	71.1	10:28:36	D0141	Paragon	100	71.1	14:18:54	14:18:54	3:50:18
24-Jan-01	D0141	Paragon	100	84.75	15:45:01	D0061	Paragon	100	84.75	15:45:31	15:45:32	0:00:30
24-Jan-01	D0061	Paragon	100	84.75	14:27:58	D0141	Paragon	100	84.75	14:28:39	14:28:39	0:00:41
24-Jan-01	D0141	Paragon	100	84.75	15:44:20	D0061	Paragon	100	84.75	15:43:39	15:44:21	0:00:41
24-Jan-01	D0141	Paragon	100	84.75	15:44:20	D0061	Paragon	100	84.75	15:43:39	15:44:21	0:00:41
24-Jan-01	D0141	Paragon	100	84.75	15:44:20	D0061	Paragon	100	84.75	15:43:39	15:44:21	0:00:41
24-Jan-01	D0141	Paragon	100	84.75	15:44:20	D0061	Paragon	100	84.75	15:43:39	15:44:21	0:00:41
24-Jan-01	D0141	Paragon	100	84.75	15:44:20	D0061	Paragon	100	84.75	15:43:39	15:44:21	0:00:41
24-Jan-01	D0141	Paragon	100	84.75	15:44:34	D0061	Paragon	100	84.75	15:43:39	15:44:35	0:00:55
24-Jan-01	D0141	Paragon	100	84.75	15:44:34	D0061	Paragon	100	84.75	15:43:39	15:44:35	0:00:55
24-Jan-01	D0141	Paragon	100	84.75	15:44:34	D0061	Paragon	100	84.75	15:43:39	15:44:35	0:00:55
24-Jan-01	D0141	Paragon	100	84.75	15:44:34	D0061	Paragon	100	84.75	15:43:39	15:44:35	0:00:55
24-Jan-01	D0141	Paragon	100	84.75	15:44:34	D0061	Paragon	100	84.75	15:43:39	15:44:35	0:00:55

24-Jan-01	D0061	Paragon	100	84.75	14:27:58	D0141	Paragon	100	84.75	14:29:14	14:29:15	0:01:16
24-Jan-01	D0061	Paragon	100	84.75	14:27:58	D0141	Paragon	100	84.75	14:29:14	14:29:15	0:01:16
24-Jan-01	D0061	Paragon	100	84.75	14:27:58	D0141	Paragon	100	84.75	14:29:39	14:29:39	0:01:41
24-Jan-01	D0061	Paragon	100	84.75	14:27:58	D0141	Paragon	100	84.75	14:29:39	14:29:39	0:01:41
24-Jan-01	D0141	Paragon	100	87	11:50:27	D0061	Paragon	100	87	12:09:34	12:09:35	0:19:07
24-Jan-01	D0141	Paragon	100	87	11:50:27	D0061	Paragon	100	87	12:10:07	12:10:07	0:19:40
24-Jan-01	D0141	Paragon	100	86.5	11:50:21	D0061	Paragon	100	86.5	12:45:14	12:45:14	0:54:53
24-Jan-01	D0141	Paragon	100	86	11:50:14	D0061	Paragon	100	86	12:45:37	12:45:37	0:55:23
24-Jan-01	D0141	Paragon	100	86	11:50:14	D0061	Paragon	100	86	12:45:53	12:45:54	0:55:39
24-Jan-01	D0141	Paragon	100	85.5	11:50:06	D0061	Paragon	100	85.5	12:46:21	12:46:21	0:56:15
24-Jan-01	D0141	Paragon	100	85.5	11:50:06	D0061	Paragon	100	85.5	12:46:39	12:46:39	0:56:33
24-Jan-01	D0141	Paragon	100	85	11:50:00	D0061	Paragon	100	85	12:47:01	12:47:01	0:57:01
24-Jan-01	D0141	Paragon	100	85	11:50:00	D0061	Paragon	100	85	12:47:17	12:47:17	0:57:17
24-Jan-01	D0061	Paragon	100	85	12:48:09	D0141	Paragon	100	85	14:28:39	14:28:39	1:40:30

From this table, it is seen that the positions in the scrip were squared off so that there would not be any obligation of delivery. It is further observed that the orders limit price and quantity of both buy and sell orders were exactly matching. I find that the volumes in the scrip were thin and the trading pattern of the client must have raised suspicion in the mind of the noticee.

- e. During the period January 17, 2001 to March 14, 2001, the price of the shares rose from Rs.61/- to Rs.128/-. Thus, by helping its client to execute repeated circular/ reversal trades, the noticee succeeded in creating an impression of volumes and also contributed to rise in the prices. Subsequently, the price of the scrip went up to Rs.219.40/- on August 16, 2001 and closed at Rs.210/- as on August 31, 2001.
- f. From the above discussion, I find that the increase in the volume and price in the scrip of Baffin was aided by the noticee by allowing its client, Paragon to trade artificially. I note the argument of the noticee that it had discontinued trading with Paragon pursuant to the receipt of information from BSE. Further, the noticee has submitted that it has improved upon the systems to ensure that no such clients be allowed on the system and also upgraded the software. The noticee while attending the hearing has argued that its client was a day trader. In the facts and circumstances of

the present case, I am not convinced with the argument of the noticee as the scrip herein was illiquid scrip and no genuine day trader will trade in scrip where it is difficult to settle the position at the end of the day. If a client still wants to trade as day trader in illiquid scrip then such behavior of a client should be a matter of worry for the broker. I note that the steps taken by the noticee were in the nature of preventing any further damage by its client to the market. However, had the noticee taken necessary precautions beforehand, then the same could have prevented Paragon from succeeding in its game plan. These observations, points that the noticee has failed to prevent its client in carrying out its nefarious design and had thus aided and abetted him creating the artificial volumes in the subject scrip.

- g.** The above findings lead to the conclusion that the noticee has failed to comply with its duties as a stock broker as specified under the provisions of the Broker Regulations. It is the duty of the stock broker to maintain high standards of integrity, promptitude and fairness, further, it shall not *inter alia* indulge in manipulative transactions with a view to distort the market equilibrium to the detriment of genuine investors. As already established the noticee has aided and abetted the misleading appearance of trading of its client in the securities market. From this, it is clear that the noticee has failed to comply with duties as expected of a registered intermediary. Thus, I hold that the noticee has failed to maintain high standards of integrity, promptitude and fairness in the conduct of the business dealings as specified in Regulation 7 read with Clause A (1) and has failed to exercise due skill, care and diligence as specified in Regulation 7 read with Clause A (2) of the Code of Conduct as specified in Schedule II of the Broker Regulation.

- 9.** 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.

10. 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, Sanghavi Brothers Brokerage Ltd. (Registration No. INB 010992132) [PAN: AAEC5 5879A], 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 : 07/04/2010
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA