

**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 AGAINST
CENTURY FISCAL SERVICES LIMITED IN THE MATTER OF S G CAPITAL
SERVICES LIMITED**

1. Pursuant to the unusual price variation in the share price of S G Capital Services Limited (hereinafter referred to as the company), a company listed at the Ludhiana Stock Exchange Limited (hereinafter referred to as LSE) during the period between February 29, 1996 and October 1, 1996, the Securities and Exchange Board of India (hereinafter referred to as SEBI) conducted an investigation into the buying, selling and dealing in the shares of the company to find out the violations, if any, of the provisions of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the SEBI Act) and the Rules and Regulations framed thereunder. The said investigation observed that the share price of the company moved from ₹10/- on February 29, 1996 to ₹42/- on April 19, 1996. The price then declined to ₹22.50/- on April 30, 1996 and again increased to ₹43.50/- on May 29, 1996. Thereafter, the share price was around ₹40/- till June 24, 1996 and on June 24, 1996, there was an auction at a high price of ₹50.75/-. The share price declined thereafter to ₹30/- on the next trading day (June 27, 1996). The price further declined to ₹7/- on October 1, 1996. From the *prima facie* findings of the investigation, it was noticed that the stock broker namely, Century Fiscal Services Limited (hereinafter referred to as the Broker), Member, LSE, had indulged in

manipulation and had also involved itself in unauthorized 'carry forward trading' while dealing in the shares of the company during the relevant period, in violation of the provisions of Regulations 4(a),(b)&(c) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as the PFUTP Regulations) and Clause A(2),(3),(4) and (5) of the Code of Conduct prescribed for stock brokers under Schedule II of the Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992 (hereinafter referred to as the Stock Brokers Regulations). Subsequently, SEBI appointed an Enquiry Officer, vide order dated January 13, 2004 under the provisions of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (since repealed), to enquire into the aforesaid allegations. The Enquiry Officer, vide report dated January 31, 2005 while recommending the suspension of the certificate of registration of the Broker for a period of four months, found that the Broker had violated the provisions of law charged against it.

2. Subsequently, SEBI issued a notice dated February 23, 2005 advising the Broker to show cause as to why the penalty as recommended by the Enquiry Officer should not be imposed against it. A copy of the Enquiry Report was also forwarded to the Broker along with the said notice. The Broker, vide letter dated March 10, 2005 *inter alia* stated that it had not purchased a single share on its own account and the same were made on behalf of the clients. According to the Broker, its trades accounted for nearly 13% of the total trades on the days when it had traded. It further contended that during the period between March 21, 1996 and April 22, 1996, the price variation was ₹0.75/- to ₹4.50/- per day. The Broker further stated that during the period May 9, 1996 to June 20, 1996, its trades involved only 25,700 shares of the company which accounted for 9.19% of the total transactions for the said period. The Broker

contended that the receipt of ₹8,00,000/- was as per the Rules and Regulations of SEBI. As far as 39,000 shares of the company received from Majestic Builders Limited, the Broker had contended that the said shares were provided in auction as per the rules of LSE. In respect of the allegation of carry forward transactions, the Broker stated that the same were executed on behalf of the clients. It also contended that the allegation of carry forward transactions is a violation of Section 16 of Securities Contracts (Regulations) Act, 1956 and that SEBI cannot charge the same under any other provisions of law. The Broker claimed that its trades cannot be matched with the transactions of other stock brokers. It further contended that when it started trading in the shares of the company, its price had already reached ₹22/- from ₹10/-. In respect of the allegation that it had traded on behalf of an entity namely Majestic Builders Limited (an associate of the company), the Broker stated that there was no link to connect it with the said client. The Broker also claimed that during the impugned period, there was a general upward trend in the shares of finance companies. With regard to the fund transaction between Tina Exports Limited and Majestic Builders Limited (associates of the company), the Broker contended that the said details were not available with it at the time of transactions. It further stated that it was unable to produce the letter for adjustment received from Tina Exports Limited as the letter of enquiry was received by it from SEBI, after the mandatory period prescribed by SEBI for maintaining the record. It further contended that the carry forward was allowed by SEBI, vide circular dated October 16, 1995. It also stated that neither the stock exchange stopped the practice followed by the stock brokers nor raised any objections on these transactions. In view of the above submissions, the Broker contended that it had not violated the provisions of law, as alleged.

3. The Broker was granted an opportunity of hearing on January 2, 2009. Though the Broker, vide letter dated December 31, 2008 expressed its intention

to avail the consent process, it had not made necessary application in terms of SEBI Circular dated April 20, 2007. Another opportunity of hearing was granted to the Broker on October 29, 2009. However, the Broker failed to appear for the hearing on the said date. Subsequently, the Broker faxed the copy of its letter dated November 1, 2009 informing its willingness to avail the consent process. Subsequent to the rejection of the said application, another opportunity was granted to the Broker on July 31, 2010. Mr. V.P.Chhabra, Practicing Company Secretary and the director of the Broker, Mr. Parshotam Lal Singla appeared on behalf of the Broker and made submissions. Thereafter, the Broker filed its written submissions in the matter.

4. I have considered the Enquiry Report, the oral as well as written submissions made by the Broker and the material available on record. My findings with respect to the allegations/charges leveled against the Broker are given below. It is observed that the Broker had purchased 4,25,700 shares and sold 3,79,800 shares of the company during the relevant period and the details of the trades of the Broker during the period between March 21, 1996 to April 22, 1996 are given below:

Date (1)	Trading by the Broker (2)	Trading at LSE (both sides) (3)	(2) as % of (3) (4)	Share price movement (₹) (5)
21.3.96	1,00,000	6,60,200	15.14%	Opened at ₹22/- and rose to ₹ 26/-.
22.3.96	80,000	8,74,800	9.14%	Opened at ₹28.25/- and rose to of ₹29.50/-
25.3.96	70,000	6,07,200	11.52%	Opened at ₹ 28/- and rose to ₹30/-.
29.3.96	72,400	6,24,200	11.75%	Opened at ₹28.50/- and rose to ₹29.25/-
1.4.96	72,400	4,17,800	11.59%	Not Available
4.4.96	65,000	7,64,400	8.5 %	Opened at ₹ 29/- and rose to ₹ 32/-
8.4.96	65,000	7,66,800	8.47%	Opened at ₹31.50/- and rose to ₹36/-.
9.4.96	34,100	1,75,600	19.41%	Opened at a high of ₹ 39/-
10.4.96	53,900	1,17,000	46.06%	Opened at ₹36.75/- and rose to ₹37/-.
11.4.96	59,900	2,94,200	20.36%	Opened at ₹36.75/-
12.4.96	44,300	4,42,000	10.02%	Opened at ₹ 37/- and rose to ₹40.50/-.
15.4.96	42,200	1,20,600	34.99%	Opened at a high of ₹ 39/-
17.4.96	700	21,800	3.21%	Opened at a high of ₹ 37.5/-
18.4.96	700	5,000	14%	Opened at ₹36/- and rose to ₹36.5/-.
19.4.96	23,100	1,11,800	20.66%	Opened at ₹ 38/- and rose to ₹42/-.
22.4.96	15,200	84,200	18.05%	Not available

The Broker has not denied the execution of such trades. Its contention was that the said transactions were miniscule and that the price increase during the period of its trades was not unusual. However, it is evident from the above table that the Broker had traded substantially in the shares of the company during the relevant period. Its trades contributed 3% to 46% of the total volume at LSE, as indicated above. The trades of the Broker were continuous and that the same were *inter alia* instrumental in increasing the share price of the company from ₹22/- on March 21, 1996 to ₹42/- on April 19, 1996, as is evident from the table above. The submission of the Broker was that during the period of its transactions, transparency was not there and that it could not ascertain the contribution of its clients in respect of the price rise. I also note that the Broker had also traded between May 9, 1996 and June 20, 1996, as given below:

Date	Trading by the Broker	Trading at LSE	(2) as % of (3)	Share price movement (₹)
(1)	(2)	(3)	(4)	(5)
9.5.96	1,700	32,400	5.25%	Opened at ₹26/- and rose to ₹27.50/-.
10.5.96	4,800	77,200	6.21%	Opened at a high of ₹ 30/-
13.5.96	2,000	41,000	4.87%	Opened at ₹28.5/- and rose to ₹33/-.
14.5.96	2,500	10,200	24.50%	Opened at ₹32.75/- and rose to ₹33.50/-.
23.5.96	2,000	31,400	6.36%	Opened at ₹38/- and rose to ₹38.50/-.
31.5.96	3,700	25,600	14.45%	Opened at a high of ₹43/-.
3.6.96	1,000	12,800	15.62%	Opened at a high of ₹ 41.90/-.
7.6.96	1,900	13,600	13.97%	Opened at a high of ₹ 40.25/-.
10.6.96	1,900	7,800	24.35%	Opened at a high of ₹40/-.
14.6.96	1,700	12,000	14.16%	Opened at a high of ₹ 40/-.
17.6.96	1,700	11,400	14.91%	Opened at a high of ₹39.50/-.
18.6.96	300	600	50%	Not Available.
20.6.96	500	3,400	14.70%	Opened at ₹39.50/- and rose to ₹40/-.

5. It can be seen from the above table that the trades of the Broker were also instrumental in increasing the share price from ₹26/- to ₹40/-. The contribution of the Broker in terms of volume was also high, as stated above. Therefore, the contention that its transactions were miniscule, which did not result in the unusual increase in the share price of the company has to be rejected. Further, the Broker contended that it had executed trades on behalf of its clients. This contention would not in any way support it as the crucial issue is not whether the trades were proprietary or executed on behalf of the clients.

However, on the other hand, it is to be ascertained whether by such trades, the Broker had manipulated the trading in the shares of the company during the investigation period. It is already borne out from the above tables that the trades of the Broker were substantial. The share price of the company had also increased during the period of its trades. The contention that the price increase was not unusual is not justified in the facts and circumstances of the case. The gross traded quantity of the Broker constituted 11.63% of the total traded volume at LSE during the relevant period. The involvement of the Broker becomes more serious when seen in the light of the fact that one of the major clients of the Broker during the period March 21, 1996 to April 22, 1996 was Majestic Builders Limited, which is an associate concern of the company. The Broker denied any involvement in the price manipulation and stated that all its deals were genuine. However, it is observed that the Broker had executed substantial trades in the shares of the company during the relevant period. The table at paragraph 4 and 5 above would indicate that the trades of the Broker had substantial impact on the price rise. It would further establish that the said trades had created misleading appearance of trading in the securities market. It was observed by the Enquiry Officer that the trades of Majestic Builders Limited through the Broker had influenced the share price of the company. It was also observed that the buying of the shares of the company by the said entity reduced the floating stock of the company. The fact that the Broker had traded for Majestic Builders Limited in the shares of the company is not disputed. In terms of the Enquiry report, there were many short sellers who were forced to go for auction, which happened at an unusually high price and to whom the shares were provided by the aforesaid entity. With regard to the said observation, the Broker stated that, if its client by any chance, had given the shares in auction, it was because it had purchased the said shares and subsequently offered the same within the parameters laid down by the stock exchange. The 'stock statement' of the Broker revealed that out of the total

shares in auction, 39,000 shares were provided to the bidding members by the Broker and that it had in turn received the shares from Majestic Builders Limited. The Broker had not denied the fact that it had received the shares from the clients and that the payments were made to the client. Its contention was that it had not received any benefit from the said auction and that the auction was as per the rules of LSE. The details of shares provided in auction are given below:

Auction date	Bidding member	Quantity	Rate (₹)	Last closing market price (₹)
21.6.96	Subhash Bhardwaj & Co.	1,000	45.25	39
21.6.96	S. Makkar & Co.	1,000	45.25	39
21.6.96	Hans Sakhuja & Co.	1,000	45.50	39
21.6.96	Kanwar & Co.	1,000	45.75	39
21.6.96	Tandon & Co.	1,000	46	39
24.6.96	Tandon & Co.	5,000	50.25	39
24.6.96	Subhash Bhardwaj & Co.	3,000	50	39
24.6.96	Rai & Co.	8,200	50.50	39
24.6.96	MS Sarna & Co.	5,500	50.50	39
24.6.96	Royal Fincap Ltd.	4,000	50.50	39
24.6.96	Batra & Co.	8,300	50.75	39
		39,000		

6. It was also noted from the bank statement of the Broker that on June 26, 1996 and June 27, 1996, it had received payments from the bidding members against the shares of the company provided to them in auction. The Broker had paid ₹5,00,000/- to Majestic Builders Limited and ₹8,00,000/- to Tina Exports Limited. The investigation conducted by SEBI found that the Broker had received funds to the tune of ₹8,00,000/- from Tina Exports Limited (now S G Global Exports Limited) on May 6, 1996, which was returned back on June 27, 1996. As per the books of accounts of the Broker, it is not clear as to why the said amount was taken. The Broker stated that the said adjustment is not prohibited as per the SEBI Circular dated October 18, 1993. However, the fact remains that the Broker was involved in the manipulation of the shares of the company during the period of investigation, as stated above in this Order.

7. One of the findings of the Enquiry Officer is that the Broker had entered into illegal carry forward transactions. The stock broker had entered into such carry forward transactions when the same was not permitted at LSE. The stock broker denied having executed carry forward transactions and claimed that the same were independent transactions. The said transactions are given below:

Date	Buyer	Seller	Qty. (shares)	Rate (₹)	Trade reversed on	Carry forward Rate (₹)
29.3.96	Aggarwal Rampal	Broker	20,000	28	1.4.96	28.20
29.3.96	RK Bansal & Co.	Broker	40,000	28	1.4.96	28.20
29.3.96	PM Singh	Broker	500	28	1.4.96	28.20
29.3.96	Kapoor & Co.	Broker	300	28	1.4.96	28.20
29.3.96	JK Jain & Co.	Broker	4,000	28	1.4.96	28.20
29.3.96	Batra & Co.	Broker	600	28	1.4.96	28.20
29.3.96	Mukesh Gupta	Broker	500	28	1.4.96	28.20
29.3.96	MS Sarna & Co.	Broker	500	28	1.4.96	28.20
29.3.96	P Arora & Co.	Broker	6,000	28	1.4.96	28.20
4.4.96	RK Bansal & Co.	Broker	50,000	32	8.4.96	32.15
4.4.96	B Mittal & Co.	Broker	5,000	32	8.4.96	32.08
12.4.96	Agarwal R & Co.	Broker	1,800	39	15.4.96	38.85
12.4.96	VK Gupta	Broker	500	39	15.4.96	38.85
12.4.96	Premjeet & Co.	Broker	4,200	39	15.4.96	38.85
12.4.96	Arora & Co.	Broker	5,300	39	15.4.96	38.85
12.4.96	Mallawat & Co.	Broker	1,000	39	15.4.96	38.85
12.4.96	Pawan Puri & Co.	Broker	3,700	39	15.4.96	38.90
12.4.96	Suvidha Fincap	Broker	5,500	39	15.4.96	39
12.4.96	Prem Gupta	Broker	3,000	39	15.4.96	39
12.4.96	AKA Share	Broker	2,400	39	15.4.96	39
12.4.96	P Arora & Co.	Broker	2,300	39	15.4.96	38.85
12.4.96	Master Capital	Broker	500	39	15.4.96	38.85
12.4.96	Integrated Sec.	Broker	500	39	15.4.96	39
12.4.96	PM Singh & Co.	Broker	4,200	39	15.4.96	39
12.4.96	JK Jain & Co.	Broker	1,600	39	15.4.96	39
12.4.96	DP Gandhi & Co.	Broker	500	39	15.4.96	39
12.4.96	N Puri & Co.	Broker	200	39	15.4.96	38.85
12.4.96	SK Sharma	Broker	5,000	39	15.4.96	39
19.4.96	Agarwal R & Co.	Broker	1,200	40	22.4.96	39.85
19.4.96	AKA Share	Broker	1,600	40	22.4.96	39.85
19.4.96	DP Gandhi & Co.	Broker	500	40	22.4.96	40
19.4.96	JK Jain & Co.	Broker	2,200	40	22.4.96	39.90
19.4.96	Mukesh Jain	Broker	200	40	22.4.96	40
19.4.96	P Arora & Co.	Broker	4,900	40	22.4.96	39.85
19.4.96	Suvidha Fincap	Broker	1,500	40	22.4.96	40
19.4.96	Suvidha Fincap	Broker	1,800	40	22.4.96	39.95
19.4.96	VK Gupta	Broker	500	40	22.4.96	39.85
10.5.96	Agarwal Rampal	Broker	1,700	30	13.5.96	29.90

17.5.96	Harish Jain	Broker I	500	35	20.5.96	34.80
24.5.96	Agarwal Rampal	Broker	500	38	27.5.96	38
24.5.96	Charanjeet Singh	Broker	100	38	27.5.96	38
24.5.96	DP Gandhi & Co.	Broker	1,000	38	27.5.96	38
24.5.96	Harish Jain	Broker	600	38	27.5.96	38
24.5.96	R Kohli	Broker	500	38	27.5.96	38
31.5.96	M Sood & Co.	Broker	500	42	3.6.96	41.90
31.5.96	R Kohli & Co.	Broker	500	42	3.6.96	41.80
7.6.96	Agarwal R & Co.	Broker	400	40	10.6.96	39.60
7.6.96	KS & Co.	Broker	1,500	40	10.6.96	39.60
14.6.96	RKB Share	Broker	200	40	17.6.96	39
14.6.96	KS & Co.	Broker	1,500	40	17.6.96	39.55

8. I note that the stock broker had *inter alia* stated that the carry forward transactions were allowed by SEBI, vide Circular dated October 16, 1995 with certain compliances by the stock exchange. Carry Forward Transactions refer to those transactions when the settlement of the trades do not happen as stipulated but is carried forward to the next settlement or subsequent settlements. The investigations had noticed that the Broker had indulged in carry forward transactions in the shares of the company. The Broker had entered into carry forward transactions with various stock brokers (members of LSE). It was alleged that at the relevant period, carry forward transactions were not allowed on the floor of LSE. Details of such transactions were communicated to the Broker in the show cause notice (when the matter was pending with the Enquiry Officer). I note that, on March 29, 1996 (Friday), the Broker sold 72,400 shares to various stock brokers. The said transactions were reversed subsequently on April 1, 1996 with the same set of stock brokers at a nominal price difference, which was apparently on account of carry forward charges. Clearly, these were in the nature of carry forward transactions. The same was also dealt by the Enquiry Officer. The Enquiry Officer had observed that the Broker had indulged in carry forward transactions at a time when such transactions were not allowed at LSE. The submission of the Broker is that the Revised Carry Forward System was allowed by SEBI, vide circular No.

SMD/SED/3703/95 dated October 16, 1995 on all the stock exchanges and that there was general impression among the stock brokers that carry forward has been allowed. It also submitted that when carry forward was allowed to all the stock brokers, it was presumed that LSE had complied with the requirements of SEBI. According to the Broker, it was for LSE to comply with the specified requirements. In this regard, it is noted that the SEBI Circular referred above by the Broker, had prescribed in paragraph 1(a) that, *“Stock Exchanges would be allowed to introduce carry forward system only with the prior permission of SEBI. Such permission would be accorded subject to the availability of suitable infrastructure of the Stock Exchanges and their capability to have an effective monitoring and surveillance system.”* In view of the above, I do see any merit in the contention of the Broker.

9. The trades of the Broker make it clear that, instead of abiding by the Code of Conduct as expected of a SEBI registered intermediary, it became a party to the manipulation in the shares of the company to the detriment of genuine investors. Further, being an intermediary operating in the securities market, a stock broker shall act with due skill, care and diligence in the conduct of his business dealings. He has a duty to the securities market and to the investors in general. Having failed to ensure the same, the Broker had also contravened the provisions of Clause A(2), (3), (4) & (5) of the Code of Conduct prescribed for stock brokers in Schedule II of the Stock Brokers Regulations. An intermediary who fails to perform such duties deserves due punishment in accordance with law.

10. In view of the foregoing, I do not have any hesitation in holding the Broker liable for the violations committed by it. I note that the present case has been initiated under the provisions of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002. Since, the said Regulations was repealed with effect from the notification of the Securities and Exchange Board of India (Intermediaries)

Regulations, 2008, this order is being passed under the corresponding provisions of the Securities and Exchange Board of India (Intermediaries Regulations), 2008.

11. The Broker has submitted that the allegations against it relate to a period more than fifteen years back when the rules and regulations governing the securities market were not much publicized in comparison to the present times. Further, it has also drawn my attention to the proceedings in respect of another stock broker (RKB Share Brokers Limited) in the matter and submitted that the said stock broker was suspended from business by SEBI for a period of fifteen days. According to the Broker, the trades executed by the said stock broker were substantial compared to its trades.

12. Having regard to the facts and circumstances of the present case in totality, 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 the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby dispose of this enquiry proceeding against the stock broker, Century Fiscal Services Limited (Member, Ludhiana Stock Exchange Limited) with a warning directing it to exercise adequate caution in functioning as a stock broker.

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

PLACE: MUMBAI
DATE: NOVEMBER 26, 2010