

**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  
TROPICAL SECURITIES AND INVESTMENTS PRIVATE LIMITED IN THE  
MATTER OF CEAT LIMITED**

1. Pursuant to an investigation into the dealings in the shares of Ceat Limited (hereinafter referred to as the Company) for the period between January 5, 2000 and February 22, 2000, the Securities and Exchange Board of India (hereinafter referred to as SEBI) had initiated an enquiry against the stock broker, Tropical Securities and Investments Private Limited (trading member, Bombay Stock Exchange Limited) and appointed an Enquiry Officer, vide Order dated November 14, 2003 in terms of the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (since repealed) for the said purpose. The Enquiry Officer, after concluding the enquiry had found that the said stock broker had contravened Regulation 4(a) and (b) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 and Clauses A(3), (4) and (5) 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 Stock Brokers Regulations) and recommended, vide Report dated November 18, 2005 that the registration of the stock broker be suspended for a period of six months.

2. Thereafter, SEBI, vide notice dated November 25, 2005, enclosing therewith a copy of the Enquiry Report, directed the stock broker to show cause as to why action as recommended by the Enquiry Officer should not be taken against it. The said notice also required the stock broker to explain why consequential action under the Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004 (since rescinded) should not be taken against it. The stock broker replied to the aforesaid notice, vide letter dated December 8, 2005. The stock broker made further submissions, vide letter dated July 14, 2006, pursuant to a hearing before my predecessor. While the instant proceeding was in progress, the stock broker filed an application dated February 21, 2009 for passing of a consent order in terms of SEBI Circular dated April 20, 2007. Therefore, the proceeding was kept in abeyance and pursuant to the rejection of the said application, the stock broker was granted another opportunity of hearing on February 3, 2010. On the said day, Mr. Bhupen Dalal, Advocate appeared on behalf of the stock broker and made submissions. Mr. Milan B. Dalal, director of the stock broker was also present in the hearing. The learned advocate while making submissions, requested SEBI to dispose off all proceedings pending against the group entities. The learned advocate undertook to file written submissions at the earliest. Thereafter, the written submissions of the stock broker was forwarded to SEBI by Mr. Bhupen Dalal, Advocate, vide letter dated September 22, 2010. The submissions made by the stock broker are considered and discussed below in this Order.

3. I have considered the Enquiry Report, the replies/written submissions of the stock broker, the oral submissions made during the hearing and other material available on record. As stated above in this Order, the charges leveled against the stock broker was that, it had violated Regulation 4(a) and (b) of the PFUTP Regulations and Clause A(3), (4) and (5) of the Code of Conduct for stock brokers prescribed under the Stock Brokers Regulations. The Enquiry

Report had given the buy and sell quantities traded by the stock broker for its various clients for the period from January 2000 to March 2000. In terms of the table at page 11 of the Enquiry Report, the stock broker had purchased 5,77,650 shares of the Company during the investigation period. Out of which, 5,59,750 (approximately 97% to the trades of the stock broker) shares were bought by Harbinger Trading Company Private Limited. From the said table, it is noted that the stock broker had executed trades for its client, Harbinger Trading Company Private Limited, who had purchased a net of 5,59,750 shares during settlement nos. 42, 43, 44, 45, 46, 47 and 50. In terms of the Enquiry Report, the stock broker had himself admitted in his statement before the Investigating Officer that the said client is its associate company. It is also mentioned in the said Report that the stock broker had not disputed the trade details. The said Report also observed that the larger share of trading by the stock broker was on behalf of Harbinger Trading Company Private Limited, an associate entity of the stock broker, as the trades for the other clients are miniscule in comparison to the transactions done for the aforesaid client.

4. I note that the Enquiry Report in paragraph 6.2 had tabulated the details of the structured/matched transactions executed with the stock broker, M/s. Pawankumar Parmeshwarlal. The following is the observation made by the Enquiry Officer in this regard:

*“These transactions had also not been disputed by the broker. As can be seen from the above, the broker has entered into 51 matched/structured transactions amounting to Rs.4,43,300 shares with M/s. Pawankumar Parmeshwarlal. It has been admitted by Shri P L Choudhary of Pawankumar Parmeshwarlal that since the broker was in need of funds, they used to give 70% to 80% advance and the remaining amount after the finalization of the price. For giving the advance, they first purchased the shares in spot from the broker and the shares which were purchased in the spot were sold immediately on the BOLT. This is not one isolated transaction but a series of transaction. Hence it is very clear that the shares sold in spot by the broker to M/s. Pawankumar Parmeshwarlal were bought back by the broker through the stock exchange mechanism on behalf of a client which was an associate company.”*

The Enquiry Report had also mentioned the details of the alleged structured/matched transactions, the stock broker had with another stock broker, Lallubhai Ranchhoddas Share Brokers Private Limited. According to the said Report, the stock broker had entered into 7 matched/structured transactions amounting to 1,04,900 shares with Lallubhai Ranchhoddas Share Brokers Private Limited and the buying and selling client in the aforesaid transactions was Harbinger Trading Company Private Limited. On considering the reply/submissions of the stock broker, the Enquiry Officer had observed thus:

*“I, therefore, hold the broker guilty of creating artificial volumes by fictitious transactions by synchronization and of misusing the stock exchange mechanism for the said purpose. Though it was repeatedly stated by the broker that there was no intention to create artificial volumes, broker admittedly created volumes for ulterior purposes.”*

5. It is also noticed from the Enquiry Report that the stock broker had admitted to have indulged in temporary funding arrangements for their BSE/NSE pay-in obligations. In this regard, the following observation from the Enquiry Report is noted:

*“The modus operandi for the said transactions is that the broker and his related and associated entities sold shares as ‘spot/off market deals’ to various entities and received funds immediately. The entities, who bought these shares on ‘spot/off market’ in turn, sold these shares on the exchange to safeguard their interest since they would get covered by the settlement guarantee fund of the Exchange. In most of these trades, the purchasing counter party has been found to be one of the related entities of the broker’s group, who had initially sold the shares on a spot/off market basis. The above cycle continued settlement after settlement during the time period of investigation. It appears, therefore, that the trading which took place on the exchanges, during the time period of investigation, was mirroring the financing arrangements which had crystallized outside the exchange as spot/off market dealt.*

*The broker did not contradict the above sequence of events. It is also an admitted position that broker entered into financing transactions. The broker’s statement during the hearing that they had not acted against the investor’s interest or interfered with the fair and smooth functioning of the market cannot be accepted. It is to be noted that it is very difficult to pin point the exact loss caused to single individual when a scrip has*

*been deliberately manipulated either to create volumes or raise the prices. The broker contended during the hearing that he had an alternative way of getting finance from the market i.e. by selling the shares he was holding. However, since he was of the view that at that particular point of time this scrip was very high, he thought that could exit at a higher price once he came out of temporary financial requirements. This argument of the broker suggests that to make profit, or to avoid loss the broker had indulged in fictitious and artificial trades, I, therefore, hold the broker guilty of creating artificial volumes and a misleading appearance of liquidity in the scrip and thereby enabled his clients and associates to off load in an illiquid scrip over prolonged period of time.”*

6. The findings in the Enquiry Report against the stock broker are that it had:-

- a) executed matched/structured trades
- b) created artificial volumes in the shares of the Company by fictitious transactions
- c) indulged in temporary funding
- d) Contravened Regulation 4(a) and (b) of the PFUTP Regulations and Clauses A(3), (4) and (5) of the Code of Conduct for stock brokers specified in Schedule II of the Stock Brokers Regulations.

7. With respect to the findings in the Enquiry Report, the stock broker vide its reply dated December 8, 2005 had inter alia submitted that its transactions in the shares of the Company were executed through the “BOLT System” during the relevant time and were in the normal and ordinary course of business. According to the stock broker, its transactions during the relevant period were only on a few days and at the prevailing market price. It further submitted “*we have not gained from these transactions except having created the liquidity by selling the shares and buying it back on the exchange and finally our long holding stock was sold on the NSE on account of CFL Securities to clear the default in the valan account i.e. in November and December, 2001 required to tide the financial tightness.....*” In its further submissions/reply dated July 14, 2006, the stock broker *inter alia* submitted that “*We had huge bank liabilities and the same stand repaid as on March 2006....And therefore we had to resort to borrowings of which one of the means, we resorted to spot funding on the floor of the exchange in the year 2000-01 just before we*

*defaulted....There has not been the case of SEBI and neither have we resorted to any other violations except excessive volumes in ill liquid scrip's.*" The stock broker, in its written submissions dated September 22, 2010 had *inter alia* submitted that it went through heavy financial difficulties and had to resort to borrowings of which one of the means was "spot funding" on the floor of the stock exchange in the year 2000/2001, solely for the purpose of meeting its pay-in obligations to the respective stock exchanges. It further submitted that it had not resorted to any other violation except that of excessive volumes in illiquid scrips. Therefore, from the submissions made by the stock broker, it is evidently clear that the transactions executed by the stock broker in the shares of the Company were done for the purposes of meeting its pay-in obligations to the stock exchanges. The Enquiry Report has brought out that the stock broker and its related entities had sold shares through spot deals/off market transactions to various entities and received funds immediately and that the entities, who bought those shares, sold them in the stock exchanges. It was observed by the Enquiry Officer that, their interest was safeguarded since they would get covered by the settlement guarantee fund of the concerned stock exchange. The aforesaid cycle had continued settlement after settlement during the investigation period. The stock broker has also submitted that in doing so, the transactions inadvertently resulted in excessive volumes on those particular days. Further, as noted earlier, the stock broker had mainly traded for its associate, Harbinger Trading Company Private Limited. The relation between itself and the said client has been admitted, according to the Enquiry Report. The findings in the Enquiry Report have not been refuted by the stock broker. Thus, I find that the transactions executed by the stock broker in the shares of the Company during the investigation period were not for the genuine purposes of buy or sell and were done for a different purpose as admitted by the stock broker in its submissions. Therefore, by indulging in such trades which are not genuine, the stock broker was a part to fictitious trades. The same created artificial volumes

in the shares of the Company during the relevant period. The share price of the Company had increased from ₹48.45/- on January 5, 2000 to ₹76.80/- on February 22, 2000. It is already established had executed trades for its associate for tidying over financial crisis. More particularly, in some of the trades, both the selling and the buying client was its associate, Harbinger Trading Company Private Limited. Such trades are fictitious as the buyer and the seller was one and the same. The stock broker volunteered itself as one of the necessary parties to such non-genuine trades, which created artificial price. Thus, the conduct of the stock broker is in contravention of Regulation 4(a) and (b) of the PFUTP Regulations. Further, the stock broker by indulging in non-genuine transactions in the shares of the Company during the relevant period had contravened Clause A (3) and (4) of the Code of Conduct for stock brokers in the Stock Brokers Regulations. By not abiding with the statutory provisions in this regard, the stock broker has also contravened Clause A (5) of the Code of Conduct for stock brokers in the Stock Brokers Regulations. I note that the present enquiry proceeding has been initiated under the provisions of the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002. The said Regulations was subsequently repealed with effect from the notification of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 and therefore, this Order is being passed under the corresponding provisions of the Securities and Exchange Board of India (Intermediaries Regulations), 2008.

8. In view of the foregoing, I, in exercise of powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulations 28(2) and 38(2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby suspend the certificate of registration of the stock broker, Tropical Securities and Investments Private

Limited (Registration No. INB010993738), Member, the Bombay Stock Exchange Limited, for a period of one month.

9. As the Securities and Exchange Board of India had already suspended the certificate of registration of the aforesaid stock broker, vide an Order dated December 7, 2009 till the time it pays the outstanding fees to the Securities and Exchange Board of India, the penalty imposed in paragraph 8 above would run concurrently.

10. This Order shall come into force with immediate effect.

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

**PLACE: MUMBAI  
DATE: JANUARY 17, 2011**