

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

IN THE MATTER OF G. G. AUTOMOTIVE GEARS LIMITED

In respect of Networth Stock Broking Limited

(SEBI Registration No. INB 0106386)

Date of hearing: September 23, 2010

Appearances

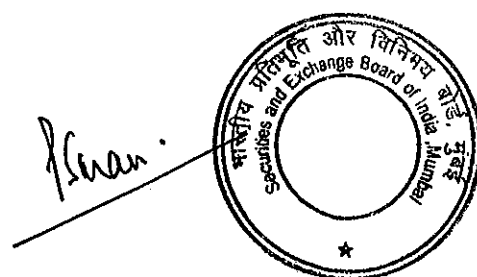
For Noticees: Mr. Rushikesh Parikh, AVP
Mr. Murgesh Bhatt, Deputy Manager
Mr. J.J. Bhatt, Advocate

For SEBI: Ms. Medha Sonparote, Deputy General Manager
Mr. Bhagwandas, Manager
Mr. Pradeep Kumar, Legal Officer

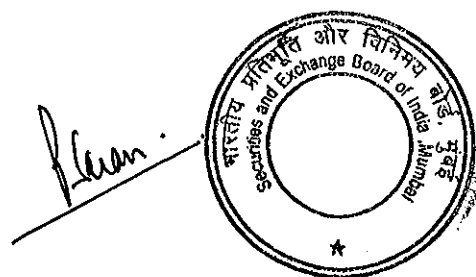
ORDER

**Under Regulation 28(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 and dealings in the scrip of G.G. Automotive Gears Limited (hereinafter referred to as 'GGAGL') for the period of August 01, 2002 to October 16, 2002, *inter alia* to ascertain any violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practice relating to Securities Markets) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations').
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. During the period, the price of the scrip increased from `23 as on August 01, 2002 to `115.30 as on October 16, 2002. Volatility in volumes was also observed in the scrip i.e. from 16,847 shares as on August 01, 2002 to 1,05,776 shares as on September 17, 2002 and from 77,041 shares as on September 18, 2002 to 19,962 shares as on October 16, 2002. The total volume traded during the investigation period was 22,75,804 shares. The price rise in the scrip was not justified by the fundamentals of company.

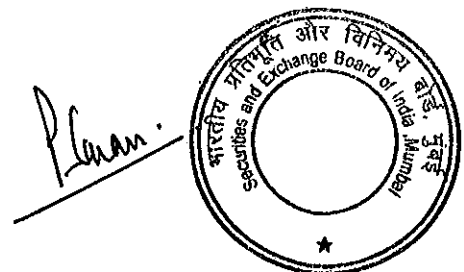


3. The investigation *prima facie* revealed that circular trading by two groups of certain brokers and a few clients contributed to an unusual spurt in the traded volumes of the scrip. Out of these two groups, the group consisting of four brokers namely Network Stock Broking Limited (hereinafter referred to as the noticee), Unique Stockbro Pvt. Limited (hereinafter referred to as Unique), DPS Shares and Securities Pvt. Limited (hereinafter referred to as DPS) and Action Financial Services (I) Limited (hereinafter referred to as Action) and their clients were found trading intra-day for 40 days in circular manner during the relevant period in the scrip. The total volume generated by way of such circular trades was 4,28,749 shares i.e., about 19% of the total quantity of the shares traded during the period under investigation. The investigation revealed that the brokers and their clients have indulged in circular and synchronized trading through collusion and transacted in the shares of GGAGL thus creating artificial volumes in the market, and leading to the significant price movement in the scrip. Investigation also revealed that one Mr. Shirish C. Shah had fraudulently traded on behalf of Ms. Indumati Goda (client of noticee) and her daughter-in-law, Ms. Trusha Goda (client of Unique).
4. Based on the findings of investigation, the SEBI initiated enquiry proceedings as against the noticee in terms of the 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 the Enquiry Regulations vide order dated January 09, 2006, read with subsequent order dated November 19, 2007. SEBI appointed the Enquiry Officer, to enquire into the alleged violation of the provisions of the PFUTP Regulations and the Code of Conduct specified under Schedule II of the SEBI (Stock Brokers and Sub-Broker) Regulations, 1992 (hereinafter referred to as the 'Broker Regulations'). As the Enquiry Regulations were repealed with effect from the notification of the SEBI (Intermediaries) Regulations, 2008, the Enquiry Officer/ Designated Authority (hereinafter referred to as the 'Enquiry Officer') submitted his Report dated January 22, 2009, in terms of Regulation 27 of the SEBI (Intermediaries) Regulations, 2008, recommending thereby a penalty of suspension for a period of one



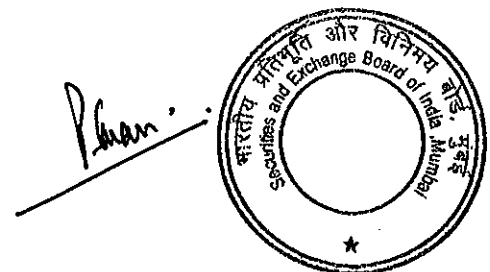
month to the noticee for violating the provisions of Regulation 4(a), (b), (c) and (d) of PFUTP Regulations and Clauses A (1), (2), (3), (4) and (5) of the Code of Conduct prescribed for the Stock Brokers in Schedule II under Regulation 7 of the Broker Regulations.

5. Subsequently, a show cause notice dated March 16, 2009 (hereinafter referred as SCN') under Regulations 13(2) of Enquiry Regulations read with Regulation 28(1) and Regulation 38(2) of the SEBI (Intermediaries) Regulations, 2008, was issued by SEBI to the noticee, asking it to show cause as to why the appropriate penalty including penalty as recommended by the Enquiry Officer should not be imposed. The noticee was advised to reply to the SCN, within twenty one days from the date of receipt thereof. It was also informed that in case of failure to reply, 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 SCN.
6. The noticee vide its letter dated March 30, 2009 sought an extension of 15 days for filing reply to the SCN. Subsequently, the noticee, vide its letter dated April 22, 2009 replied to the SCN and also requested for a personal hearing. Accordingly, an opportunity of personal hearing was granted to the noticee on May 14, 2010. On the date scheduled for hearing, the noticee appeared through Mr. Rushikesh Parikh, AVP, Mr. Murgesh Bhatt, Deputy Manager and Mr. J.J. Bhatt, Advocate. During the hearing, the noticee asked for the trade-log relied on by SEBI. In compliance with the principles of natural justice, the trade-log was forwarded to the noticee by SEBI vide letter dated May 19, 2010 and a further opportunity of personal hearing was granted to the noticee on June 14, 2010. However, the noticee failed to appear for the personal hearing on that day. Subsequently, the noticee vide its letter dated June 15, 2010 requested for another opportunity of personal hearing. Considering the request, another opportunity of personal hearing was granted to the noticee on September 23, 2010. On the date fixed for hearing, Mr. Rushikesh Parikh, AVP, Mr. Murgesh Bhatt, Deputy Manager



and Mr. J.J. Bhatt, Advocate appeared. Elaborate submissions were made on behalf of the noticee and the hearing was thus concluded. Despite giving him several opportunities for hearing, the noticee vide its letter dated October 25, 2010, again requested for an opportunity of personal hearing and also for making written submissions. The noticee also asked for certain documents. Thereafter, the noticee gave its written submissions vide its letter dated November 25, 2010, which was also taken on record. Thus, I note that the principles of natural justice are duly met as sufficient opportunities have been granted to the noticee to make its submissions.

7. I have carefully considered the Enquiry Report, the SCN issued to the noticee, reply to the SCN, written submission received from the noticee and the material available on record. The submissions of the noticee in brief are:
- a. The transactions in the scrip of GGAGL were done for and on behalf of Ms. I.U. Goda and had made payments by cheque in her name, received money from her bank account. The transactions were of normal intra-day nature and the client had always honored her obligation and commitment.
 - b. Had merely acted as agent of its client and carried out the orders in the usual course of business. It was not aware, that the client had any intention to synchronize the trades and the matching of orders was purely system driven, technical, and unintentional.
 - c. There was no connection between it and the GGAGL. It had not done any proprietary trading in the shares of GGAGL. The trades were carried out at the prevailing market price and the volume of transaction in the scrip of GGAGL was small compared to its daily volume. Impugned transaction constituted only about 0.04% to 2.92% of their daily turnover constituting thereby a very minute and miniscule percentage of its daily turnover.
 - d. Atleast on 11 days, the client had first sold the shares and thereafter bought an equal quantity later in the day to square off the transaction.
 - e. No order log data of the scrip of GGAGL for the relevant period was provided.
 - f. As Ms. I.U. Goda has not been punished, then how can the noticee be punished.
 - g. Only 139 orders were placed by them which resulted into 2,053 trades.



- h. They have maintained high standard of integrity, promptitude and fairness in the conduct of business and also acted with due skill, care and diligence while dealing in the transactions of GGAGL scrip.
- i. There is great delay in proceedings.
- j. It has improved upon internal vigilance and surveillance so as to try and ensure that such a situation does not get repeated in future.
8. I have noted the submissions of the noticee that they have not been supplied with various documents. It is seen that all the documents that have been relied upon are provided to the noticee. However, I note that no document, which has not been provided to the noticee, is being relied upon in the present proceedings. Having considered all these, the issue that arises for my consideration is: Whether the noticee in collusion with other brokers created artificial liquidity/ false market in the scrip of GGAGL?
9. **Whether the noticee in collusion with other brokers created artificial liquidity/ false market in the scrip of GGAGL?**
- a. I note that during the investigation period, the noticee had traded for its client Ms. I.U. Goda in the scrip of GGAGL. It is observed from the Enquiry Report that the noticee along with the brokers namely DPS, Unique and Action traded within the group, thereby contributing to a volume of 4,28,749 shares, constituting 19% of the total quantity traded during the relevant period in the scrip of GGAGL. As already noted above, during the investigation period, the above group of brokers had traded in the scrip of GGAGL on 40 days. Details of these trades are given hereunder:-

Table – A

S. No.	Broker	Client Name and code	Shares Bought	Shares Sold
1.	DPS	1. Anju Gandhi 2. Atul Gandhi 3. Harshad 4. Soham Securities 5. S 6. S012	3,500 28,000 8,125 40,000 2,500 18,230	5,000 30,850 8,125 48,999 2,500 18,250
2.	Unique	1. Hitesh Shah 2. Trusha Goda	66,775 29,890	67,825 37,750
3.	Networth	I.U. Goda	1,11,250	98,420
4.	Action	P.B. Chandrashekhar	1,20,479	1,11,030

P. Khan.



		Total	4,28,749	4,28,749

- b. I note that as per the table-A above, the volume contributed by the group of four brokers named above is 4,28,749 shares. It is seen that the number of shares on the buy and sell side of the group as a whole has remained the same i.e. 4,28,749 shares. Out of this total, the noticee had purchased 1,11,250 shares and sold 98,420 shares while trading for its client in the scrip of GGAGL. The Enquiry Report has brought out the analysis of order/ trade log in the scrip of GGAGL, which reveals transaction of noticee as under:

Table – B

Trades of noticee	Trading period		Counterparty		No. of shares	% to trades synchronized
	From	To	Member	Client		
Buy side	01-Aug-02	27-Sept-02	Action	Chandrashekhar	52,425	47.12
	09-Aug-02	14-Aug-02	DPS	Harshad	2,375	2.14
	05-Aug-02	05-Sept-02	Unique	Hitesh Shah	21,450	19.28
	07-Aug-02	23-Aug-02	DPS	S012	7,500	6.74
	02-Sept-02	19-sept-02	DPS	Soham Sec	27,500	24.72
	Total				1,11,250	100.00
Sell side	27-Sept-02	--	DPS	Atul Gandhi	3,500	3.55
	05-Aug-02	19-Sept-02	Action	Chandrashekhar	35,655	36.27
	02-Aug-02	19-Aug-02	DPS	Harshad	3,750	3.80
	01-Aug-02	18-Sept-02	Unique	Hitesh Shah	24,625	25.01
	06-Aug-02	21-Aug-02	DPS	S012	5,750	5.84
	28-Aug-02	05-Sept-02	DPS	Soham Sec.	5,000	5.08
	20-Sept-02	26-Sept-02	Unique	Trusha Goda	20,140	20.45
	Total				98,420	100.00

From a perusal of the table B above, I note that 100% of the purchases of the noticee were with the brokers namely Action, DPS and Unique whereas 100% of the sales of the noticee were also with the same set of brokers. The total purchase and sale by the noticee in the shares of GGAGL were through these brokers as detailed in the table above.

- c. I have seen the pattern of circular trading that was being followed by the noticee and other three brokers in the group, while trading in the scrip of GGAGL. The instances thereof as also brought out in the Enquiry Report are being reproduced below:

Table – C

Date	Seller	Buyer/ seller	Buyer/ seller	Buyer/ seller	Buyer	Qty.
1-Aug-02	Noticee	Unique	DPS	Action	Noticee	1,250

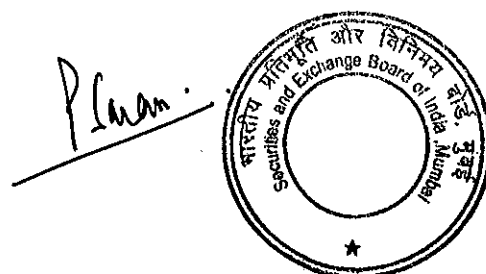
P. Khan.



2-Aug-02	Action	Noticee	DPS	Unique	Action	1,250
5-Aug-02	DPS	Unique	Noticee	Action	DPS	750
6-Aug-02	Unique	Noticee	DPS	Action	Unique	750
7-Aug-02	DPS	Noticee	Unique	Action	DPS	1,250
8-Aug-02	Unique	Noticee	DPS	Action	DPS	1,250
9-Aug-02	DPS	Noticee	Unique	Action	DPS	1,125
12-Aug-02	Unique	Action	DPS	Noticee	Unique	1,250
13-Aug-02	DPS	Noticee	Unique	Action	DPS	1,250
14-Aug-02	DPS	Noticee	Unique	Action	DPS	1,250
16-Aug-02	Unique	Noticee	DPS	Action	Unique	1,250
19-Aug-02	DPS	Unique	Action	Noticee	DPS	1,250
20-Aug-02	DPS	Unique	Action	Noticee	DPS	1,250
21-Aug-02	Unique	Noticee	DPS	Action	Unique	2,500
22-Aug-02	Unique	Noticee	Action	DPS	Unique	2,500
23-Aug-02	Noticee	Unique	Action	DPS	Noticee	3,750
26-Aug-02	Action	DPS	Unique	Noticee	Action	2,500
27-Aug-02	Unique	Noticee	Action	DPS	Unique	2,500
28-Aug-02	Unique	Noticee	DPS	Action	Unique	2,500
30-Aug-02	Action	Noticee	Unique	DPS	Action	2,500
2-Sep-02	Action	DPS	Noticee	Unique	Action	2,500
4-Sep-02	DPS	Action	Noticee	Unique	DPS	2,500
5-Sep-02	Unique	Noticee	DPS	Action	Unique	2,500
6-Sep-02	Unique	DPS	Noticee	Action	Unique	2,500
9-Sep-02	Action	Unique	DPS	Noticee	Action	2,500
11-Sep-02	Unique	DPS	Noticee	Action	Unique	2,500
12-Sep-02	Noticee	Action	Unique	DPS	Noticee	3,750
13-Sep-02	Unique	DPS	Noticee	Action	Unique	3,750
16-Sep-02	Action	Noticee	Unique	DPS	Action	3,500
17-Sep-02	Noticee	Action	Unique	DPS	Noticee	2,500
18-Sep-02	Action	Noticee	Unique	DPS	Action	2,500
19-Sep-02	Noticee	Action	Unique	DPS	Noticee	3,500
20-Sep-02	Action	Noticee	Unique	DPS	Action	3,500
23-Sep-02	Action	Noticee	Unique	DPS	Action	3,890
24-Sep-02	Action	Noticee	Unique	DPS	Action	3,750
25-Sep-02	Action	Noticee	Unique	DPS	Action	4,250
26-Sep-02	Action	Noticee	Unique	DPS	Action	4,750
27-Sep-02	Unique	Action	Noticee	DPS	Unique	3,500

From the above details, I note that all the four brokers had followed the common pattern of circular trading. It is seen that on any given day, when one broker started selling a particular quantity of shares, the second broker bought it, who in turn sold it to the third broker and the last broker finally sold it back to the first broker and completed the circle. As on August 01, 2002, it is seen that the noticee sold 1,250 shares to Unique, who further sold the same quantity to DPS and then the shares were sold to Action, who finally sold it back to the noticee.

- d. From Table C, I note that the shares were being rotated in a circular manner among the group of brokers on a daily basis. It is seen that the trades were so well organized within this group as the same number of shares went back



to the original seller at the end of the day. It is observed that similar pattern of circular trading was observed on 38 trading days during the investigation period.

- e. Considering the facts and circumstances described in previous paragraphs, I am of the view that matching of the trades entered by the entities was not accidental. Rather, it shows concerted efforts to get the orders matched with each other. The total contribution of the noticee and the other brokers of the group towards the circular trades is as under:

Table – D

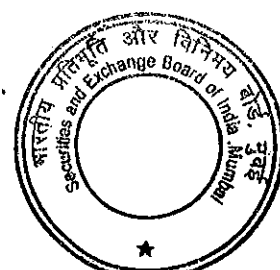
Name of the broker	DPS	Action	Network	Unique
No. of trades	1,864	1,863	2,053	1,710

- f. I note from the trade log provided to the noticee vide letter dated May 19, 2010, that the orders in respect of most of the trades entered by the noticee were entered with a startling proximity in the timing, price and quantity thus resulting into matching of the orders. A few instances of the same have been reproduced below:

Table – E

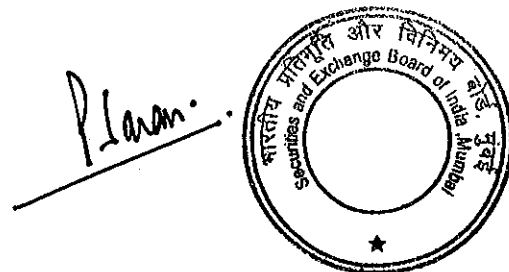
Date	Buy				Sell				Qty.	Price	Time	Time diff.
	Order No.	Member Code	Client Code	Time	Order No.	Member Code	Client Code	Time				
01-Aug-02	17001300000019702	D0170	8654	13:21:55	19700300000029160	D0197	3217	13:21:56	125	23.6	13:21:56	0:00:01
01-Aug-02	17001300000019702	D0170	8654	13:21:55	19700300000029160	D0197	3217	13:21:56	125	23.6	13:21:56	0:00:01
01-Aug-02	17001300000019702	D0170	8654	13:21:55	19700300000029160	D0197	3217	13:21:56	125	23.6	13:21:56	0:00:01
01-Aug-02	17001300000019702	D0170	8654	13:21:55	19700300000029160	D0197	3217	13:21:56	125	23.6	13:21:56	0:00:01
01-Aug-02	17001300000019702	D0170	8654	13:21:55	19700300000029160	D0197	3217	13:21:56	125	23.6	13:21:56	0:00:01
01-Aug-02	17001300000019702	D0170	8654	13:21:55	19700300000029160	D0197	3217	13:21:56	125	23.6	13:21:56	0:00:01
01-Aug-02	17001300000019702	D0170	8654	13:21:55	19700300000029160	D0197	3217	13:21:56	125	23.6	13:21:56	0:00:01
01-Aug-02	17001300000019702	D0170	8654	13:21:55	19700300000029160	D0197	3217	13:21:56	125	23.6	13:21:56	0:00:01
01-Aug-02	17001300000019702	D0170	8654	13:21:55	19700300000029160	D0197	3217	13:21:56	125	23.6	13:21:56	0:00:01
01-Aug-02	17001300000019702	D0170	8654	13:21:55	19700300000029160	D0197	3217	13:21:56	125	23.6	13:21:56	0:00:01
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	125	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	1	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	124	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	2	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	123	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	3	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	122	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	4	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	121	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	5	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	120	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	6	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	119	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	7	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	118	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	8	22.8	14:03:17	0:00:00

P. Lalan.

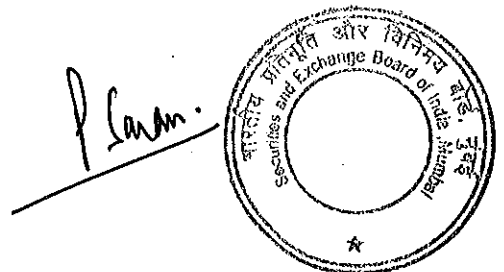


01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	117	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	9	22.8	14:03:17	0:00:00
01-Aug-02	19700300000029164	D0197	3217	14:03:17	44400100010043476	D0444	406748	14:03:17	116	22.8	14:03:17	0:00:00
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	125	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	75	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	50	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	125	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	25	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	100	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	100	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	25	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	125	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	50	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	75	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	125	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	125	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	75	23.9	13:16:20	0:00:03
02-Aug-02	19700300000029210	D0197	3217	13:16:20	44400100010043509	D0444	406748	13:16:17	50	23.9	13:16:20	0:00:03
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	131	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	119	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	12	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	131	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	107	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	24	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	131	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	95	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	36	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	131	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	83	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	48	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	131	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	71	23.75	14:21:07	0:00:02

The above details clearly indicate synchronization in the placing of the orders, as these appear to have been punched with preconceived motive and prior arrangement that the orders would be picked up by a particular client of the group on the opposite side. Therefore, the total purchase of 1,11,250 shares and the sale of 98,420 shares of GGAGL by the noticee, was synchronized with the same set of entities. I note that large number of trades got matched regularly. These trades were carried out for many days and the timing of the orders so placed also matched within 0-60 seconds. The occurrence of such structured and synchronized deals in a circular manner persistently cannot be a co-incidence because the shares were rotated intra-day within a closed group of clients and there was no change in the beneficial ownership of the shares. The execution of circular trading in a synchronized manner repeatedly for several days by the noticee and the group reveals that they were having nexus with each other and were acting in tandem as a group.



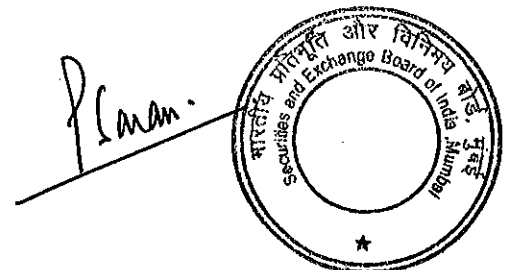
- g. I observe from the Enquiry Report that the circular trading in the scrip by the group started on August 01, 2002, with a quantity of 1,250 shares. Gradually, the quantity increased to 4,750 shares as on September 26, 2002. I note that the price of the scrip also increased from `23.60 per share as on August 01, 2002 to `98.25 per share as on September 27, 2002, along with such circular trading. I also note the following facts:
- A total of 7,490 trades were executed among the group of brokers for a volume of 4,28,749 shares, accounting for 19% of the total trading volume.
 - Time difference between buy orders and sell orders ranged from 0-60 seconds at most instances.
 - The net delivery of the noticee remained very less compared to the total trading.
 - The total intra-day volume contributed by the group ranged from 13% to 53.38%.
- h. All these facts point to the active connivance of the noticee with its counterparty brokers. I note that even though the screen based trading system is faceless in nature and maintain anonymity of the counterparty broker/ client, it is also an established fact that two parties with prior intent can match their trades with each other by placing orders simultaneously at the same price. I observe that the trading pattern followed by the noticee and the group is clearly in the nature of circular trades since they were the main entities who traded amongst themselves by executing synchronized trades with the intention that the orders of a particular entity get matched with the other. In the instant case, the circular trading on so many days clearly reveals manipulative intent. These transactions, apart from creating artificial volume of trading, also influenced the prices, by giving an impression to others that the scrip is being actively traded at prevailing prices. I note that it is absolutely most unlikely that persons unknown to each other could trade continuously by placing orders in a circular manner and contribute significantly to the total volumes in the market.



- i. The noticee has argued that as its client Ms. I.U. Goda has not been punished for the trades entered in the scrip then how can the broker (the noticee) be punished. I note that during the investigations, the client of the noticee had submitted before SEBI that she had not traded in the scrip of GGAGL. Further, after detailed investigations it came to light that one Mr. Shirish Shah had traded in the scrip on behalf of Ms. I.U. Goda for this purpose he had opened the bank account in the name of Ms. Goda. I note from the findings of investigations, that Shirish Shah only had operated the trades in the name of Ms. I.U. Goda. During the hearing, when the noticee was asked to explain the identity of the person who was placing orders for the trades of Ms. Goda, it replied by saying that as the case is old, they do not remember as to who was placing the orders in her name. I note that SEBI has already issued directions against Mr. Shirish Shah wherein, it has been concluded that Shirish Shah was the one who traded on behalf of Goda family.

It is seen that the statement of Shirish Shah and Ms. I.U. Goda have not been made part of the present proceedings. Even if, one assumes that the noticee was not aware that the orders were being given by Shirish Shah then also, the fact remains that the trades in the scrip of GGAGL were entered through it in a circular manner.

- j. I note the argument of the noticee that the quantity of shares traded by it was not high and no alerts were received by it and further that it had discontinued trading with Ms. I.U. Goda pursuant to the receipt of information from BSE. The noticee has also submitted that it has improved upon the systems to ensure that no such client shall be allowed on the system and that it has 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 of GGAGL was illiquid and no genuine day trader will want to 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 the 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 its client from succeeding in its game plan. Therefore, the noticee has failed to prevent its client from carrying out its nefarious design and had thus aided and abetted in creating the artificial volumes in the subject scrip.

- k. The above discussed role of the noticee shows that it played a vital role in the game plan of the manipulation of the trading in the scrip of GGAGL. The noticee by carrying out synchronized transactions and circular trading, created artificial liquidity in the scrip of GGAGL and rigged the price upwards. Thus, I am of the view that the charge of the violation of the provisions of Regulation 4(a),(b),(c) and (d) of the PFUTP Regulations stands established against the noticee.
10. Based on the above discussion and considering the nature of the trades, I note that the noticee indulged in the pattern of trades which were not genuine, but manipulative as discussed above while trading on behalf of its client. Thus, I find that the noticee has failed to perform its statutory duties, which are expected from a prudent stock broker who has a duty not only towards its client but also towards maintaining the integrity of the securities market. A registered intermediary is expected to observe due compliance of the rules/ regulations and the directives issued by SEBI. 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 creation of misleading appearance of trading by its client in the securities market. Thus it is clear that the noticee has failed to comply with duties expected from a registered intermediary.

Plam.



11. As regards the submission of the noticee regarding delay in the proceedings, I note that neither there is no time line fixed for such cases. Nor can delay justify exoneration.
12. In view of the discussion above, I find that the noticee is guilty of the violation of Regulation 4(a), (b), (c) and (d) of PFUTP Regulations and Clauses A (1), (2), (3), (4) and (5) of the Code of Conduct prescribed for the stock brokers in Schedule II under Regulation 7 of the Broker Regulations.
13. 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 the SEBI (Intermediaries) Regulations, 2008.
14. I, therefore, in the exercise of power conferred upon me by Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28(2) Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby suspend the certificate of registration of the stock broker, Network Stock Broking Limited (SEBI Registration no. INB 0106386) [PAN: AAACN 1184F] for a period of one month.
15. This order shall come into force on expiry of twenty one days from the date of this order.

DATE : 19/APRIL/2011
PLACE: MUMBAI


PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA