

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: PRASHANT SARAN, WHOLE TIME MEMBER

IN THE MATTER OF OASIS MEDIA MATRIX LIMITED

In respect of M/s. Rajesh N. Jhaveri

SEBI Registration No: INS 010949811

Date of Hearing: July 12, 2011

Appearances:

For Noticee: Mr. Deepak R. Shah, Advocate

For SEBI: Mr. Mridul Rastogi, Assistant General Manager
Mr. Pradeep Kumar, Assistant Legal Adviser

ORDER

Under Regulation 28(2) of 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 dealings in the scrip of Oasis Media Matrix Limited (hereinafter referred to as 'OMML') for the period of April 08, 2002 to July 09, 2002. The scrip of OMML, during the period of investigation was listed on Bombay Stock Exchange (hereinafter referred to as 'BSE') and Ahmedabad Stock Exchange. However, during the period of investigation, the scrip was traded only at BSE.
2. The trading details of the persons who had traded in the scrip were collected and analyzed. During the period of investigation, the price of the scrip opened at ₹15.10 on April 8, 2002, touched a high of ₹37.95 on July 9, 2002 and closed at ₹35.50 on July 9, 2002. After the period of investigation, the price of the scrip went down to ₹13 as on July 26, 2002 (on face value of ₹10). The investigation also reviewed the financial performance of the company, which revealed that the company incurred a loss of ₹3.21 lacs for the financial year ended March, 2001, and earned a negligible profit of ₹2.98 lacs in the financial year ended March, 2002 on a paid up capital of ₹3.49 crore. Investigation further revealed that during the period immediately prior to the investigation

there was no trading in the scrip in the rolling settlement i.e. during July 1, 2001 to April 8, 2002. During this period, the scrip was traded only for three days in the physical segment. The volume traded during the period of investigation was 6,45,492 shares in 64 days. Investigation *inter alia* revealed that M/s Rajesh N. Jhaveri (hereinafter referred to as the 'noticee'), while acting as a sub-broker [bearing SEBI Registration no. INS 010949811] to ASE Capital Market Limited, traded in the scrip of OMML on behalf of its client and in its own account. While trading in the scrip circular/ reversal trades were executed by the noticee.

3. Based on the findings of the investigations, SEBI initiated enquiry proceedings 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 August 23, 2007 read with subsequent order dated December 10, 2008. The Enquiry Officer was appointed to enquire into the alleged violation of the provisions of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations') and the Code of Conduct prescribed for sub brokers under Schedule II read with Regulation 15 of the SEBI (Stock Brokers and Sub-Broker) Regulations, 1992 (hereinafter referred to as 'Broker Regulations'). Pursuant to this, the noticee filed an application for the settlement of proceedings through a consent order. The application filed by the noticee was dealt in accordance with the SEBI Circular dated April 20, 2007. Subsequently, the proceedings initiated under the SCN were revived as the application for consent was rejected by SEBI.

The Enquiry Officer/ Designated Authority (hereinafter referred to as the Enquiry Officer) submitted his Report dated January 28, 2011 under SEBI (Intermediaries) Regulations, 2008 recommending penalty of suspension for a period of three months for violating the provisions of Regulation 4(a), (b), (c), (d) of the PFUTP Regulations and Clause A(1), A(2), D(1), D(4) and D(5) of

the Code of Conduct prescribed for the sub-broker in Schedule II read with Regulation 15 of the Broker Regulations.

4. Subsequently, a Show Cause Notice (hereinafter referred to as 'SCN') under Regulation 28 of the SEBI (Intermediaries) Regulations, 2008 dated February 10, 2011 was issued by SEBI to the noticee, asking it to show cause as to why the action as recommended by the Enquiry Officer should not be taken. 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 from 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.
5. No reply was received from the noticee. Before proceeding further in the matter, an opportunity of personal hearing was granted to the noticee on July 12, 2011. On the date fixed, Mr. Deepak R. Shah, advocate, appeared as the authorized representative of the noticee and submitted that the noticee has no records to defend the case and requested for a lenient view in the matter as he is inactive since the year 2004.
6. I have carefully considered the Enquiry Report, the SCN issued to the noticee, submission of the noticee and the material available on record. I note that the noticee has not disputed the facts and charges levied against it but has pleaded to take lenient view. Considering this, the issue that arises for my consideration is: Whether the noticee had indulged in circular/ reversal of trades and thereby created artificial volume while trading in the scrip of OMML?
7. **Whether the noticee indulged in circular/ reversal of trades and thereby created artificial volume in the scrip?**
 - a. The Enquiry Report has alleged a pattern of circular/ reversal trading among a group of clients and sub-brokers trading in their own account, which accounted

for 67.13% of the gross market traded quantity in the scrip of OMML. I note that the investigation period was broadly divided into two parts as under:

- **April 08, 2002 to April 12, 2002** – Sharp increase in price (**First Period**)
- **April 15, 2002 to July 09, 2002** – Volume creation (**Second Period**)

- b. During April 15, 2002 to July 09, 2002, i.e. the second period, the noticee was found to have traded for its client and also on its own behalf. The trading was spread over 60 days, when the price of the scrip of OMML increased from ₹23.75 to ₹35.50 and 4,918 trades were executed for 6,02,992 shares. The break-up of the quantity of the shares traded amongst broker/ sub-brokers have been brought out below for reference:

Table - A

Broker	Sub-Broker	Major Ultimate Client	Gross Purchase		Gross Sales	
			Shares	%	Shares	%
P. Suryakant	Parshwa Finance	Anil Modi	65,150	10.80	65,450	10.85
		Ashish P. Shah	66,885	11.09	65,100	10.80
		Mona F. Shah	5,000	0.83	48,919	8.11
		Fenil M. Shah			6,500	1.08
ASE Capital Markets	Archi Shares & Stock	Mona F. Shah	46,632	7.73	46,919	7.78
		Vrajesh Patel	1,05,414	17.48	1,10,155	18.27
	Jaswantlal Vadilal Shah	Piyush Jhavery, proprietor, Parshwa	54,700	9.07	54,700	9.07
	Noticee	Nrupesh C. Shah	77,350	12.83	77,650	12.88
		Noticee	11,451	1.90	6,400	1.06
Active Finstock		Swasthik Stock	50,100	8.31	49,600	8.23
Anagram Stock		Bhavya V. Shah	24,360	4.04	24,200	4.01
Parklight		Sanjay Talati	15,800	2.62		0.00
FMS Securities		Harsha Jhavery	7,250	1.20	7,250	1.20
Total				87.90%		93.34%
Total traded quantity			6,02,992		6,02,992	

I note from the Enquiry Report that out of 4,918 trades executed during the second period, the orders in 1,996 trades (40.60% of the total number of trades during this period) were placed within a time gap of only one minute where the total volume traded was 1,90,862 shares (31.66% to the total traded volume during the said period). I note that these trades were executed between Nrupesh C. Shah, the noticee (trading in its own account), Mr. Anil D. Modi, Mr. Ashish P. Shah, Ms. Mona F. Shah, Mr. Vrajesh Patel, Mr. Piyush N. Jhavery, Ms. Harsha Jhavery and Swasthik Stock Broking.

- c. I have seen the trading details of the noticee and others as brought out in the Enquiry Report and note that these were reversal/ circular and also synchronized/ structured in nature. The table stating this, has been brought out below:

Table - B

Broker	Client/ (sub-broker)	No. of Trading days/ No. of days circularly traded	Buy Qty.	% of market traded Qty.	Sell Qty.	% of market traded Qty.	Gross Circular traded Qty. (% to total trading of broker)	% of gross market traded Qty.
ASE Capital	Vrajesh Patel, Mona F.Shah, Piyush S. Jhavery, Nirupesh C.Shah, Noticee	56/37	2,42,447	40.21 %	2,43,997	40.46 %	4,86,444 (79.99%)	40.34%
P.Suryakant	Anil Modi Ashish P. Shah Mona F. Shah	45/37	1,21,000	20.07 %	1,18,050	19.58%	2,39,050 (72.82%)	19.82%
Active Finstock	Swasthik Stock (Pinnacle Stock)	26/15	34,100	5.66 %	35,500	5.89 %	69,600 (62.99%)	5.77%
FMS Securities	Harsha Jhavery	2/2	7,250	1.20 %	7,250	1.20 %	14,500 (100%)	1.20%
Total			4,04,797	67.13 %	4,04,797	67.13 %	8,09,594	67.13%
Market Volume on BSE			6,02,992		6,02,992			

- d. From the table B above, I note that out of a total 6,02,992 shares traded on BSE during the second period, 4,04,797 shares i.e. 67.13% were in the nature of circular/ reversal. I also note that out of total 64 trading days during the period of investigation, circular/ reversal trades took place on 48 days. Due to the circular/ reversal trades by the brokers trading on behalf of their sub-brokers/ clients, artificial volume of 8,09,594 shares (gross) was generated which comprised 67.13% of the total gross market traded quantity. Out of this, the sub-broker/ clients including the noticee trading through the broker, ASE Capital Markets Limited, generated 40.34% of the market gross (4,86,444 shares). For the days on which circular trades were observed, the circular trades generated 26% to 100% of the day's traded quantity. I note that the price of the scrip increased daily during the entire period of investigation from ₹22.50 to ₹35.40.

As seen from the table above, eight clients through their brokers, acting as a group executed circular/ reversal trades which accounted for 67.13% of the gross market traded quantity. On 33 days out of the 48 days, when circular/

reversal pattern was observed, the combined volume of these clients was above 85% of the market volume and in 10 out of these 33 days, their combined volume was the same as the market traded volume i.e., 100% of the market traded volume. Since the contribution of other entities was comparatively less on the days of circular trading, the aforesaid entities were able to match the trades among themselves with considerable ease.

- e. Further, the trades of the noticee's client, Nrupesh C. Shah matched mainly with the noticee (trading in its own account), Mr. Anil D. Modi, Mr. Vrajesh Shah, Mr. Ashish P. Shah and Mrs. Mona F. Shah. The pattern of trading indicates synchronization in the placing of the orders, as these appear to have been punched with pre-conceived motive and prior arrangement that the orders would be picked up by a particular client belonging to the group on the opposite side. I observe that the noticee had traded for its client on 37 days in the scrip of OMML. Out of this, on 31 days, while trading for its client, the noticee executed reversal/ circular trades for 1,44,900 shares accounting for 12.02% of the market traded quantity. Further, the noticee had also executed circular/ reversal trades in its own account for 17,750 shares (gross) on 7 days where the counter parties were the clients of the sub-broker Shree Parshwa Finance and Archi Shares and Stock.
- f. I note that the noticee and its counterparty sub-broker, Shri Parshwa Finance were related as submitted by the proprietor of noticee, Mr. Gautam Jhaveri in a statement recorded by SEBI on October 29, 2004 that the proprietor of Shri Parshwa Finance, Mr. Piyush Jhaveri, is his cousin brother. Further, the noticee and Shri Parshwa Finance were having common telephone number. These facts give an inference that the noticee and Shri Parshwa Finance were acting in nexus. I note that there were 148 buy trades and 159 sell trades (which resulted in circular/ reversal trades) in all by the noticee arising out of 80 buy orders and 67 sell orders. All this constitute 92.30% of the noticee's own volume.

- g.** Therefore, I note that large number of trades got matched regularly in illiquid scrip. These trades were carried out for many days and the timing of the orders so placed also matched with very little time difference and the price and quantity also being identical. 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 others reveals the active connivance with each other. 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. 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.
- h.** 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 in its own account and 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/ sub-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. Thus, it is clear that the noticee has failed to fulfill the obligations attached to a registered intermediary.

- i. 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 OMML. In view of the above, I find the noticee guilty of violating the provisions of Regulations 4(a), (b), (c), (d) of the PFUTP Regulations and Clause A(1), A(2), D(1), D(4) and D(5) of the Code of Conduct prescribed for the sub-broker under Schedule II read with Regulation 15 of the Broker Regulations.
8. 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.
9. 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 noticee namely, M/s. Rajesh N. Jhaveri (SEBI Registration no. INS 010949811) [PAN: ADAPJ 5993J] for a period of three months.
10. I note that SEBI has already suspended the certificate of registration of the M/s. Rajesh N. Jhaveri, vide an order dated September 20, 2011 for a period of one year. In view of the same, it is clarified that the present order shall run concurrently with the aforesaid order.
11. This order shall come into force on expiry of twenty one days from the date of this order.

DATE : 20/SEPT/2011
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA