

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 010638634)

Date of hearing: November 30, 2011

Appearances

For Noticees: Mr. Rushikesh Parikh, Assistant Vice President
Mr. Manish Ajmera, Executive Director
Mr. Joby Mathew, Advocate
Mr. Mayukh Pandya, Consultant

For SEBI: Mr. Rajeev Rastogi, Presenting Officer
Mr. Krishnand Raghavan, Deputy General Manager
Ms. Anitha Anoop, Deputy Legal Adviser
Mr. Bhagwandas Samariya, Assistant General Manager
Mr. Pradeep Kumar, Assistant Legal Adviser

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') had passed an Order dated April 19, 2011, under Regulation 28(2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 in respect of Networth Stock Broking Limited (hereinafter referred to as 'noticee') registered with SEBI as a stock broker bearing SEBI registration no. INB 010638634, in the matter of G.G. Automotive Gears Limited (hereinafter referred to as 'GGAGL'), whereby the certificate of registration of the noticee was suspended for a period of one month.
2. The Hon'ble Securities Appellate Tribunal (hereinafter referred to as 'SAT'), after considering the order of SEBI dated April 19, 2011 against the noticee, remanded the order of SEBI, making the following observations:

"2. We have heard the learned counsel for the parties at length who have taken us through the impugned order and the record. As already noticed above, the appellant has been found guilty of aiding and abetting

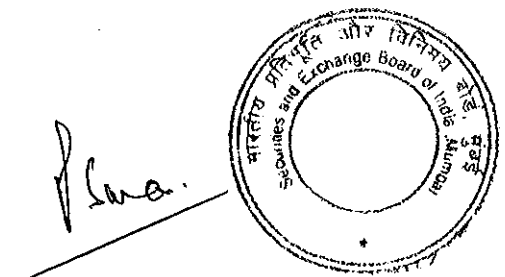
Prashant Saran



its client, namely Ms. I.U. Goda for the creation of misleading appearance of trading in the securities market by executing circular trades. Separate proceedings had been initiated against the clients as well including Ms. I.U. Goda and it is common ground between the parties that she has been let off the charge of executing circular trades. It must be remembered that every broker executes either a self trade or a trade on behalf of his client(s). Admittedly, in the case before us the appellant is said to have executed trades on behalf of Ms. I.U. Goda and the finding recorded by the whole time member is that while executing trades on her behalf, the appellant had aided and abetted her in creating misleading appearance of trading in the scrip of the company. When Ms. Goda has been exonerated, we wonder how the finding against the appellant that it aided and abetted her in executing false/ circular trades can be upheld. It is clear from the record that Ms. I.U. Goda has been exonerated of the charges on the ground that the aforesaid Shirish Shah had fraudulently executed trades on her behalf by opening bank accounts in her name. In this view of the matter, we cannot uphold the finding recorded by the whole time member.

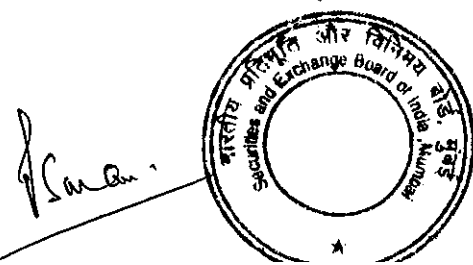
In the result, the appeal is allowed and the impugned order set aside. The case is remanded to the respondent Board for taking fresh proceedings in accordance with law."

3. Therefore, in compliance with the order of Hon'ble SAT dated June 06, 2011, the current proceedings have been initiated and a show cause notice dated September 27, 2011 was issued to the noticee. The noticee vide its letter dated November 21, 2011 replied to the show cause notice. Pursuant to this, an opportunity of personal hearing was afforded to the noticee on November 30, 2011. On the date fixed Mr. Rushikesh Parikh, Assistant Vice President of the noticee; Mr. Manish Ajmera, their Executive Director; Mr. Joby Mathew, Advocate and Mr. Mayukh Pandya, the Consultant appeared on behalf of the noticee for personal hearing and made oral submissions. Further, they sought 10 days' time to file written submissions, which was duly granted. The written submissions were filed on December 12, 2011 and taken on record. Having complied with the principles of natural justice now, I proceed with the matter taking into consideration the material available on record.
4. I note that the earlier order of SEBI dated April 19, 2011 had dealt with the matter extensively and the issue that remains is how the findings as against the noticee that it aided and abetted Ms. I.U. Goda in executing false/ circular trades can be upheld when Ms. I.U. Goda herself has been exonerated.



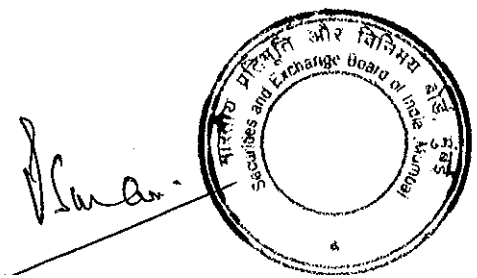
Considering this, my findings as regards the rest of the matter remains same and are being reiterated below.

5. SEBI conducted investigation into the buying, selling and dealings in the scrip of GGAGL for the period of August 01, 2002 to October 16, 2002. During the period of investigation, the price of the scrip of GGAGL increased from ₹23 as on August 01, 2002 to ₹115.30 as on October 16, 2002. Such price rise in the scrip was not justified by the fundamentals of company. 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 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 Networth Stock Broking Limited (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 a synchronized and circular manner during the period of investigation in the scrip of GGAGL, created artificial volumes in the market leading to the significant price movement 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. Investigation also revealed that one Mr. Shirish C. Shah had fraudulently traded in the name of Ms. Indumati Goda (the only client of the noticee who had traded in the scrip of GGAGL) and her daughter-in-law, Ms. Trusha Goda (client of Unique).
6. Based on the findings of investigation, 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,



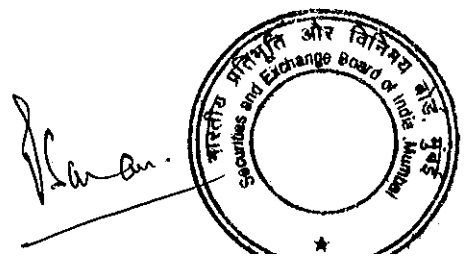
2006, read with subsequent order dated November 19, 2007. The Enquiry Officer enquired into the alleged violation of the provisions of the PFUTP Regulations and the Code of Conduct specified under Schedule II of the SEBI (Stock Brokers and Sub-Broker) Regulations, 1992 (hereinafter referred to as the '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.

7. Subsequently, a show cause notice dated March 16, 2009 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 show cause notice, 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 show cause notice.
8. The noticee vide its letter dated April 22, 2009 replied to the show cause notice 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 its authorized representative and asked for the trade-log relied by SEBI. The trade-log as asked by the noticee was forwarded by SEBI vide letter dated May 19, 2010 and another opportunity of personal hearing was granted to it on June 14,

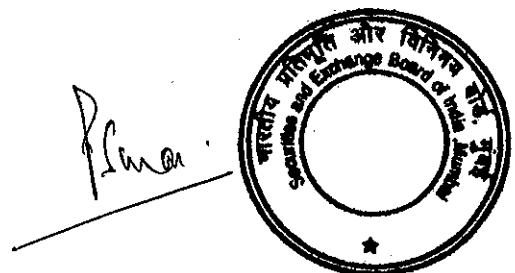


2010. However, the noticee failed to appear for the personal hearing on that day. Subsequently, the noticee vide its letter dated June 15, 2010 requested for another opportunity of personal hearing. Considering the request, another opportunity of personal hearing was granted to the noticee on September 23, 2010. On the date fixed for hearing authorized representative of the noticee appeared and made submissions. Thereafter, the noticee gave its written submissions vide its letter dated November 25, 2010, which was taken on record.

9. I have carefully considered the Enquiry Report, reply of the noticee to the Enquiry Report, show cause notice issued to the noticee, the written submissions received from the noticee and the material available on record. The submissions of the noticee in brief are:
- a. The direction of Hon'ble SAT to initiate 'fresh proceedings' in accordance with law has to be interpreted as meaning that the Enquiry process has to be started afresh. The show cause notice contain new allegation and documents which were never been considered by the Enquiry Officer.
 - b. The transactions in the scrip of GGAGL were done for and further, on behalf of Ms. I.U. Goda and it had made payments by cheque in her name, the noticee received money from her bank account. The transactions were of normal intra-day nature and the client had always honoured her obligation and commitment.
 - c. They have not been furnished with the documents which would show or imply that Ms. I.U. Goda has disputed/ denied the trades in the scrip of GGAGL. The noticee has sought cross-examination of Ms. I.U. Goda to clarify whether Shirish Shah had in fact, defrauded her.
 - d. 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.
 - e. 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.
- f. Its client was transacting in various scrips during the period of investigation and the trading volume of the said client in the scrip of GGAGL was only 18% of the total volume of the said client in all the scrips during the period of investigation. The average daily trades of its client in the scrip of GGAGL was only 2,880 shares intra-day and average daily exposure was only ₹1.50 lakhs. Impugned transactions constituted only about 0.04% to 2.92% of their daily turnover i.e. a miniscule percentage of its daily turnover. Such miniscule transactions in the said scrip could not have raised any alerts/ alarm/ concern with its Risk Management Department.
 - g. It merely executed the orders of its client at the time when the same were communicated to it and was not part of any group of brokers or clients. It was not aware that its trades were amounting to circular trades.
 - h. Shirish Shah used to place orders on behalf of Ms. I.U. Goda. Occasionally Ajay Goda also used to place the orders on her behalf.
 - i. No order log data of the scrip of GGAGL for the relevant period was provided.
 - j. As Ms. I.U. Goda has not been punished, then how can the noticee be punished.
 - k. Only 139 orders were placed by them which resulted into 2,053 trades.
 - l. 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. It has improved upon internal vigilance and surveillance so as to try and ensure that such a situation does not get repeated in future.
 - m. It has 93,000 registered constituents and more than 56 branches serve these constituents.
 - n. There is great delay in proceedings.
10. I have noted the submissions of the noticee that they have not been supplied with order log data of the scrip of GGAGL. From the available records, I note that the trade-log has been supplied by SEBI to the noticee vide letter dated



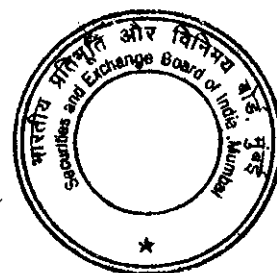
May 19, 2010. However, I note that no document, which has not been provided to the noticee, is being relied upon in the present proceedings.

Further, the noticee in its submissions has sought cross-examination of Ms. I.U. Goda. I note that SEBI has not solely relied upon the submission of Ms. I.U. Goda and the facts of the case have been independently verified. I also note from the letter of the noticee dated December 22, 2004 that Ms. I.U. Goda had neither visited their office nor she placed the orders. Her documents were submitted by Shirish Shah, who used to place orders over phone on behalf of the client. In view of above discussion, the request of the noticee to cross-examination of Ms. I.U. Goda is not maintainable for the present proceedings.

Another, submission of the noticee is that the Enquiry process ought to have been initiated afresh, under the SEBI (Intermediaries) Regulations, 2008. The Hon'ble SAT had remanded the matter back to SEBI for taking fresh proceedings in accordance with law. The noticee has argued that a correct interpretation of Hon'ble SAT order would be initiation of a fresh enquiry under the SEBI (Intermediaries) Regulation, 2008. In this regard, I have reconsidered the Enquiry Report in the present matter and find no reference of aiding and abetting in it. I also refer to the paragraph fourteen of the Enquiry Report which states that Sirish Shah a remiser of Unique, had fraudulently traded on behalf of Ms. I.U. Goda. Hon'ble SAT in its order has rejected the finding of aiding and abetting Ms. I. U. Goda by the noticee and not the Enquiry Report. Therefore, in my view a fresh enquiry in the present facts and circumstances is not warranted. I note that the noticee has got a reasonable opportunity of hearing before me and the rights of the noticee are not affected in any way by not conducting of a fresh enquiry in this matter.

Having considered all these, the issue that arises for my consideration is: Whether the noticee had traded in the scrip of GGAGL in collusion with entities in the group in a manner which created artificial liquidity/ false market?

Plama



11. Whether the noticee had traded in the scrip of GGAGL in collusion with entities in the group in a manner which created artificial liquidity/ false market?

- a. I note that during the period of investigation, 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:-

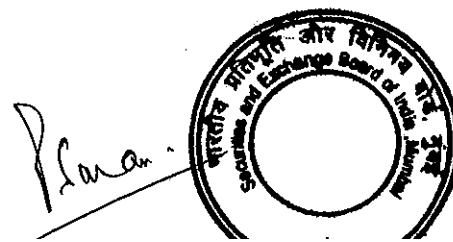
Table – A

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
		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		



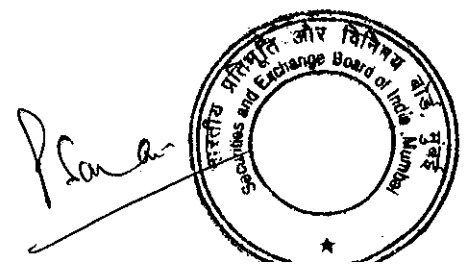
Buy side	01-Aug-02	27-Sept-02	Action	Chandrashekhar	52,425	47.12
	09-Aug-02	14-Aug-02	DPS	Harshad	2,375	2.14
	05-Aug-02	05-Sept-02	Unique	Hitesh Shah	21,450	19.28
	07-Aug-02	23-Aug-02	DPS	S012	7,500	6.74
	02-Sept-02	19-sept-02	DPS	Soham Sec	27,500	24.72
	Total				1,11,250	100.00
Sell side	27-Sept-02	--	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
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 well structured 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:

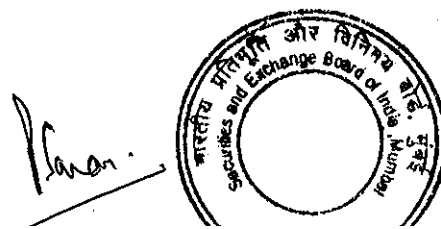
Handwritten signature



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

Table – E.

	Buy				Sell							
Date	Order No.	Memb er Code	Clien t Code	Time	Order No.	Memb er Code	Client Code	Time	Qty.	Price	Time	Time diff.
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
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

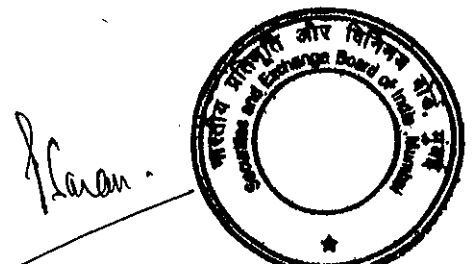


02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	131	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	14:21:05	119	23.75	14:21:07	0:00:02
02-Aug-02	15100400010014350	D0151	H012	14:21:07	19700300000029226	D0197	3217	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 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 on the part of those involved with the transactions. 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. I note the findings of Hon'ble SAT that as the client of the noticee namely Ms. I.U. Goda has not been punished for the trades entered in the scrip then how the noticee can be punished. While addressing this issue, let me also refer to the submission of the noticee that the order for the trades of the noticee, were placed by Shirish Shah. Admittedly, Shirish Shah was neither a client nor a remisier of the noticee. I note the admission of the noticee during the personal hearing that it was negligent to some extent by not seeing Ms. I.U. Goda personally as it had no reason to doubt her bonafides. The noticee has also submitted that Ms. I.U. Goda had never came to its office and her registration form for opening of the account and required documents

Handwritten signature



were submitted by Shirish Shah. It is seen that SEBI has already issued directions by an order dated July 19, 2010, against Shirish Shah based on the conclusion that Shirish Shah was the one who had traded in the name of Goda family. The active role of Shirish Shah in the opening of bank accounts and demat accounts in the name of Goda family without their knowledge, is also discussed therein. The noticee in its recent written submissions has also said that Shirish Shah used to place the orders on behalf of Ms. I.U. Goda. Considering all these, it can be inferred that trades in the name of Ms. I.U. Goda and fund transfers in her bank account were happening without her knowledge. The noticee has argued that Ms. I.U. Goda has not denied any of the trades done in her account, in any of the correspondences she had with the noticee. Let me emphasize that the trading account and the bank account of Ms. I.U. Goda was opened without her knowledge and she had not put in any money for trading in the scrip of GGAGL.

It is important to note that Ms. I.U. Goda is just a name that has been admittedly used by Shirish Shah in carrying out the manipulations. This might have been done with active connivance of the noticee or if one generously thinks, aided by the negligence of the noticee. During the personal hearing, the noticee has admitted that it never had any contact with Ms. I.U. Goda. Therefore, in my opinion exoneration of Ms. I.U. Goda does not in any way lessen the responsibility of the noticee.

- j. Notwithstanding the above, even if, one were to assume that the noticee was not aware that Shirish Shah was trading in the name of Ms. I.U. Goda without her knowledge, then also, the fact remains that the trades in the scrip of GGAGL were entered through it in a circular manner over a period 38 days. I place my reliance on the order of Hon'ble SAT in the matter of '*Ajmera Associates Pvt. Limited Vs. SEBI*', wherein, in respect of similar pattern of trades, Hon'ble SAT had observed as under:

"Since the trading system maintains complete anonymity, brokers always plead that they were ignorant about the counterparty or his broker. In such a situation one has to look to the trading pattern and if

Raman



the trades match too often or if the matching of the trades is noticed day after day and trade after trade one can infer that the matching was done not by the system but by manipulating the same. Similarly, if two or more market players start trading in circles and do not allow the shares to go out of the circle, it could be reasonably inferred that both traders and their brokers are colluding to execute such artificial trades which give a misleading appearance of trading in the market without change of beneficial ownership in the scrip"

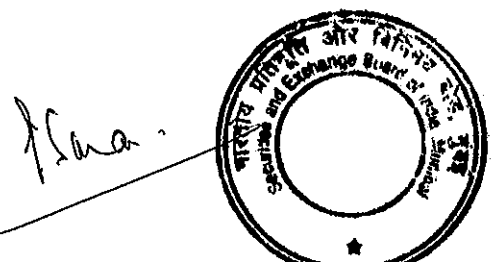
- k. I note the submission of the noticee that the quantity of shares traded by it was not high and no alerts were received by it, and that further, it had discontinued trading with Ms. I.U. Goda pursuant to the receipt of information from BSE. The noticee has further submitted that the trading in the scrip of GGAGL was mere execution of transactions that were relatively small day trades and that all intraday positions were squared off at the end of the day. Considering the facts and circumstances of the present case, I am not convinced with the submission 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 an illiquid scrip, then such behavior of the client should be a cause for concern to 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 Shirish Shah from succeeding in his game plan.
- l. 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.
12. 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

Haran



client on whose name Shirish Shah had placed the orders. 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.

13. As regards the submission of the noticee regarding delay in the proceedings, I note that neither there is time line fixed for such cases nor can the delay justify exoneration.
14. The noticee has also submitted that it has considerably improved upon the systems to ensure that no such client shall be allowed on the system and has implemented stringent Know Your Client norms. This submission of the noticee does not in any way lessen the gravity of misconduct indulged into by the noticee.
15. 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 (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.
16. 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.
17. 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 010638634) [PAN: AAACN 1184F] for a period of one month.

18. This order shall come into force on expiry of twenty one days from the date of this order.

DATE : 27/DEC/2011
PLACE: MUMBAI



[Handwritten signature]

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA