WTM/PS/26 /IVD/ID-6/MAY/2012

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

In respect of M/s. Arihant Stocks & Shares
Sub-Broker affiliated to Padmakant Devidas Securities, Member-BSE,
SEBI Registration no. INS010228125

Date of hearing: September 9, 2011

Appearances

For Noticee: Ms. Jigisha Vadodaria
Ms. Anamika Dubey
Mr. Hasmukhlal Champaklal Vora

For SEBI: Mr. Biswajit Choudhury, Deputy General Manager
Ms. Anitha Anoop, Deputy Legal Adviser
Mr. Rajeev Rastogi, Assistant Legal Adviser
Mr. Pradeep Kumar, Assistant Legal Adviser
Mr. Siddharth Dachalwal, Manager

ORDER

Under Regulation 28(2) read with Regulation 38 (2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008

1. Securities and Exchange Board of India (hereinafter referred to as the 'SEBI') conducted investigation into the buying, selling and dealing in the shares of Stocknet International Limited (hereinafter referred to as the 'SNIL') for the period April 30, 2001 to August 03, 2001 (hereinafter referred to as the 'investigation period'). During the investigation period, the volume and price of the scrip fluctuated widely. The scrip of SNIL was listed at the Calcutta Stock Exchange (CSE) and the Bombay Stock Exchange (BSE).

2. SNIL was a thinly traded scrip, and there was no trading in the scrip between April 30, 2001 to May 25, 2001. However, from May 31, 2001, the price of the scrip rose from Rs. 45.10 to Rs.104.40 on July 13, 2001, following active trading. Thereafter the price of the scrip fell to

Rs. 83.85 on August 1, 2001. On June 12, 2001, BSE had reduced the circuit filter of the scrip from 8 % to 4 %, and further reduced the same from 4 % to 2 % on July 17, 2001.

3. Investigation revealed that certain brokers and sub-brokers, including M/s. Arihant Stocks & Share (hereinafter referred to as the 'noticee'), had extensively dealt in the scrip of SNIL in a fraudulent manner. It was also noticed that all the trades of the noticee in the scrip of SNIL were executed on behalf of a single client, namely Vaishali J. Shah. Thus, it was alleged that the noticee aided and abetted its client in creating artificial volume and influencing the price of the scrip, thereby violating the provisions of Regulations 4(a), (b), (d) and (e) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations, 1995') read with Regulations 4(1),(2)(a), (b), (d), (e) and (n) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003 (hereinafter referred to as 'PFUTP Regulations, 2003') and Clauses A(1), A(2), D(1), D(4) and D(5) of Code of Conduct for Sub-Brokers as specified in Schedule II under Regulation 15 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as 'Broker Regulations').

4. Based on the findings of the investigation, SEBI initiated enquiry proceedings against the noticee in terms of 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 Enquiry Regulations vide order dated October 1, 2007 read with order dated November 23, 2007, to enquire into the alleged violation of the aforementioned provisions of the PFURP Regulations, 1995 read with PFUTP Regulations, 2003 and the Broker Regulations. Since the Enquiry Regulations were repealed with the notification of SEBI (Intermediaries) Regulations, 2008, the Enquiry Officer/ Designated Authority (hereinafter referred to as the 'Enquiry Officer') submitted his Report dated March 17, 2011, in terms of Regulation 27 of SEBI (Intermediaries) Regulations, 2008, recommending thereby that the certificate of registration of the noticee be suspended for a period of **three weeks**.

5. Subsequently, a notice dated March 31, 2011 (hereinafter referred as 'SCN') under Regulation 28 of SEBI (Intermediaries) Regulations, 2008, was issued to the noticee, asking the noticee to show cause as to why action as recommended by the Enquiry Officer, or a higher penalty should not be imposed on it. 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 the noticee 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 replied to the SCN vide letter dated April 19, 2011. An opportunity of personal hearing was granted to the noticee before me on September 09, 2011. On the scheduled date, Jigisha Vadodaria and Anamika Dubey, Advocates, and Hasmukhlal Champaklal Vora appeared before me as the authorized representative of the noticee and made submissions. The noticee has, *inter alia*, submitted as under:

   i. The noticee has requested for documents relied upon by SEBI in the matter.
   ii. The noticee traded on instructions of its client and it is not feasible for a sub-broker to detect the intentions of its client.
   iii. The noticee bought 9400 shares and sold 2900 shares on behalf of its client, whereas the Enquiry Report alleges that it bought 22,200 shares and sold 31,200 shares on behalf of its client.
   iv. The noticee is not a part of any 'related entities'.
   v. There are no laws/ rules that prohibit placing orders at prices higher than the last traded price.
   vi. The noticee was not part of any manipulation in the scrip

7. I have carefully considered the Enquiry Report, the SCN issued to the notice along with the reply thereto and other material available on record. Thus, the issues that arise for my consideration are:

   - Whether the noticee executed trades on behalf of its client in a manner that led to the creation of artificial volume and price in the scrip of SNIL, and thus violated provisions

of Regulations 4(a), (b), (d) and (e) of the PFUTP Regulations, 1995 read with Regulations 4(1),(2)(a), (b), (d), (e) and (n) of the PFUTP Regulations, 2003 and Clauses A(1), A(2), D(1), D(4) and D(5) of Code of Conduct for Sub-Brokers as specified in Schedule II under Regulation 15 of the Broker Regulations?

8. At the outset, I note that following the request of the noticee for documents relied upon by SEBI in the matter, the same have been provided to the noticee. In the interest of natural justice, the noticee was also granted an opportunity for inspection vide letter dated April 19, 2012. The noticee, however, has informed SEBI, vide letter dated April 20, 2012 that they did not wish to avail of this opportunity of inspection in the matter.

9. I note that the noticee had dealt in the scrip of SNIL on behalf of one client, namely, Vaishali J. Shah. During the investigation period, the noticee had bought 22,200 shares and sold 31,200 shares of SNIL on behalf of its client. The noticee's client, along with other related entities, had a concentration of 65 % on the buy side and 50 % on the sale side. I note that the noticee has submitted that it purchased only 9400 shares and sold 2900 shares on behalf of its client, and that the figures recorded in the Enquiry Report are erroneous. However, vide its letter dated September 13, 2011 the noticee has expressed its inability to provide any documentary evidence in support of its submissions, as the information sought is old. However, the volumes with regard to the noticee's trades, as appearing in the Enquiry Report, have been carved out of details provided by BSE. Hence, in the absence of any documents in support of the noticee's claim, I am inclined to rely on the numbers recorded by the Enquiry Officer in his Report.

10. In Settlement Numbers 10 and 11, from the period May 28, 2001 to June 08, 2001, when the scrip was thinly traded, the noticee had executed a few large orders. Thereafter, from Settlement no.12 on June 11, 2001 the scrip had attracted attention of other investors, which led to a gradual increase in the price and volume of the scrip.

11. Further, I note that on July 09, 2001 (settlement no.16), the noticee along with certain other broker, namely, P Suryakant Share and Stock Brokers Pvt. Ltd and Shree Hari Hira Stock

Broking (P) Ltd. executed trades in the scrip in a manner to circulate shares of SNIL amongst themselves, giving a false impression of trading in the scrip. On the aforementioned date, the noticee, on behalf of Vaishali J Shah, bought 4400 shares of SNIL at the rate of Rs. 102.75 a share from Shree Parshwa Finance, dealing through the broker P Suryakant Share & Stock Broker P. Ltd. In another trade on the same day, the noticee sold 2900 shares to P Suryakant Share and Stock Brokers Pvt. Ltd at the rate of Rs.105.50 a share.

12. I also note that these orders were placed at rates that were considerably variant from the previous orders at the time. The noticee has submitted that it acted on the instructions of its clients. However, the repeated execution of trades with the same counterparties in such a manner cannot be a coincidence, nor can they occur without the involvement of the broker/ sub-broker. Moreover, the noticee has submitted that there is no law that prohibits it from placing orders at higher rates. However, when two or more parties on opposite sides of the market mechanism place orders at higher/ lower prices to raise/ depress the price of a scrip, such trades fall squarely within the ambit of manipulative trades that are prohibited by the PFUTP Regulations, 1995 and 2003. In view of the same, the transactions described above do not appear to be of a genuine nature as they are contrary to the actions of a reasonable man.

19. Thus, in view of the foregoing, I find that the noticee executed trades on behalf of its client in a manner that led to the creation of artificial volume and price in the scrip of SNIL. The acts of the noticee are in violation of Regulations 4(a), (b) and (d) of the PFUTP Regulations, 1995 read with Regulations 4(1),(2)(a), (b), (d), (e) and (n) of the PFUTP Regulations, 2003 and Clauses A(1), A(2), D(1), D(4) and D(5) of Code of Conduct for Sub-Brokers as specified in Schedule II under Regulation 15 of the Broker Regulations. I agree with the finding of the Enquiry Officer that there is no evidence on record to show that the noticee was paying or agreed to pay money to inflate or depress the price of said scrip and hence the violation of Regulation 4(e) of PFUTP Regulations, 1995 is not established.

20. Thus, taking into consideration, the facts and circumstances of the case, I, in exercise of the powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of

India Act, 1992 read with Regulation 28(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008 hereby direct that the certificate of registration of the noticee, M/s. Arihant Stocks & Shares (Sub-Broker affiliated to Padmakant Devidas Securities, Member-BSE, SEBI Registration no. INS01022812) be suspended for a period of 2 (two) weeks.

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

DATE : MAY 10, 2012
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA