

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA**  
**CORAM: DR. K. M. ABRAHAM, WHOLE TIME MEMBER**

**ORDER UNDER REGULATION 28(2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 AGAINST M/S. AGGARWAL RAM PAUL & CO. (MEMBER, LUDHIANA STOCK EXCHANGE LIMITED) IN RESPECT OF ITS DEALING IN THE SHARES OF S G CAPITAL SERVICES LIMITED**

1. After noticing unusual price variations in share price of S G Capital Services Limited (hereinafter referred to as the company), a company listed at the Ludhiana Stock Exchange Limited (hereinafter referred to as LSE) during the period between February 29, 1996 and October 1, 1996, the Securities and Exchange Board of India (hereinafter referred to as SEBI) conducted investigations into the buying, selling and dealing in the shares of the company to find out the possible violations of the provisions of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the SEBI Act) and the Rules and Regulations framed thereunder. The investigations conducted by SEBI noticed that the share price of the company unusually moved upward from Rs.10/- on February 29, 1996 to Rs.42/- on April 19, 1996. The price then declined to Rs.22.50/- on April 30, 1996 and again increased to Rs.43.50/- on May 29, 1996. Thereafter, the share price was around Rs.40/- till June 24, 1996 and on June 24, 1996, there was an auction at an unusually high price of Rs.50.75/-. The share price declined thereafter to Rs.30/- on the next trading day (June 27, 1996). The price further declined thereafter to Rs.7/- on October 01, 1996.

2. From the *prima facie* findings of the investigations, it was noticed that M/s. Aggarwal Ram Paul & Co. (hereinafter referred to as the stock broker), a trading member of LSE had entered into non-genuine trades and had also indulged in 'carry forward trading' while dealing in the shares of the company during the relevant period, in violation of the provisions of Regulations 4(a), 4(b) & 4(c) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as the PFUTP Regulations) and Clause A (2), (3), (4) and (5) of the Code of Conduct prescribed for stock brokers under Schedule II of the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as the Stock Brokers Regulations). M/s. Aggarwal Ram Paul & Co. is a proprietorship concern with Mr. Rampal Aggarwal as its proprietor. Subsequently, SEBI appointed an Enquiry Officer vide order dated January 13, 2004 under the provisions of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as the Enquiry Regulations), to conduct an enquiry against the stock broker. After completing the enquiry in accordance with the provisions of the Enquiry Regulations, the Enquiry Officer found that the stock broker had violated the provisions of law as aforesaid. In view of the said violations, the Enquiry Officer recommended that the certificate of registration of the stock broker be suspended for a period of four months, vide Enquiry Report dated January 31, 2005.

3. After receipt of the Enquiry Report, a notice dated February 23, 2005 was issued to the stock broker under Regulation 13(2) of the Enquiry Regulations requiring it to show cause as to why penalty as recommended by the Enquiry Officer should not be imposed. A copy of the Enquiry Report was also forwarded to the stock broker along with the said notice. The show cause

notice was served on the stock broker through LSE. Sufficient time was given to the stock broker for making its submissions. Subsequently, an opportunity of hearing was granted to the stock broker by SEBI on January 2, 2009. The date of hearing was communicated by SEBI, vide letter dated December 17, 2008 through LSE. The said hearing was subsequently postponed to January 30, 2009 and the stock broker was informed about the same, vide SEBI letter dated January 1, 2009. Mr. Rampal Aggarwal (proprietor of the stock broker), vide letter dated January 30, 2009, submitted that he was not able to be present for the personal hearing as he was just relieved from the hospital. Further, he submitted that he did not play any role in the company's 'insider trading' and requested that he may be excused from personal presence. He further requested to be 'excluded' from the present proceedings. Taking into consideration the facts and circumstances of the case and the stock broker's request to exempt him from personal hearing, I proceed to consider the case on merits based on the documents available on record.

4. I have perused the Enquiry Report, the show cause notice dated February 23, 2005 issued to the stock broker and other material on record and find that the following issues arise for my consideration:

- a. Whether the stock broker played a role in the manipulation of the share price of the company during the relevant period?*
- b. Whether the stock broker entered into trades that were non-genuine?*
- c. Whether the stock broker indulged in carry forward transactions?*

My findings with respect to the above issues are recorded in the ensuing paragraphs.

5. It was found that the stock broker had purchased 3,21,200 shares and sold 3,15,300 shares of the company between March 18, 1996 and April 19, 1996. The gross traded quantity was of 6,36,500 shares which was 9.19% of the total traded volumes (69,25,000) at LSE during the said period. It was also noticed that stock broker had traded on its own behalf. Such details were incorporated in the show cause notice issued at the commencement of the enquiry proceedings before the Enquiry Officer. For sake of convenience, the same is being reproduced here:

Date	Trading by the stock broker	Trading at LSE (both buy & sell)	Percentage of the stock broker's trade to the total trades at LSE	Share price movement
21.3.96	1,00,000	6,60,200	15.14%	Opened at Rs.22/- and rose to Rs. 26/-.
22.3.96	90,000	8,74,800	10.28%	Opened at Rs28.25/- and rose to of Rs 29.50/-
25.3.96	1,30,000	6,07,200	21.40%	Opened at Rs. 28/- and rose to Rs.30/-.
26.3.96	14,000	1,11,600	12.54%	Opened at Rs.29.75/- and rose to Rs.30/-
29.3.96	73,400	6,24,200	11.75%	Opened at Rs28.50/- and rose to of Rs 29.25/-
1.4.96	59,000	4,17,800	14.12%	Not Available
4.4.96	50,600	7,64,400	6.61%	Opened at Rs 29/- and rose to of Rs. 32/-
8.4.96	47,800	7,66,800	6.23%	Opened at Rs. 31.50/- and rose to Rs.36/-.
9.4.96	10,000	1,75,600	5.69%	Opened at a high of Rs 39/-
10.4.96	45,000	1,17,000	38.46%	Opened at Rs. 36.75/- and rose to Rs.37/-.
11.4.96	12,000	2,94,200	4.07%	Opened at Rs36.75/- and rose to of Rs 36.75/-
12.4.96	9,000	4,42,000	2.03%	Opened at Rs. 37/- and rose to Rs.40.50/-.

I find that the stock broker had traded in the shares of company on its own account during March 21, 1996 to April 12, 1996. The trading by the stock broker was found to be substantial when compared to the total trading at LSE. In this regard, I find that the stock broker had stated that the first deal of 1 lakh shares in the shares of the company was entered as a seller just to save Rs.0.10/- or Rs.0.15/- only, but was not able to cover the same. He further stated that on next day, the open position was covered, resulting in a loss of around Rs. 3/ 4 lakhs and that to cover the losses, it had indulged in speculative activities. The stock broker further denied any involvement in share price manipulation and stated that all its deals were genuine. The Enquiry Officer found that the said submissions were not acceptable for the reason that the

initial deal of 1 lakh shares itself was quite substantial and suspicious, when compared with the floating stock of just 10.78 lakh shares in the market. In the absence of any convincing material to rebut the observation of the Enquiry Officer, I am unable to accept the contention of the stock broker in this regard. The Enquiry Officer has also observed that the stock broker had admitted his involvement in speculative activities. With respect to the same, I find that the stock broker had traded in 6,36,500 shares (in gross), during the period March 18, 1996 and April 19, 1996. However, it had taken delivery of only 10,000 shares and gave in delivery a total of 18,500 shares. The quantum of shares which were delivered was very miniscule when compared to the volumes bought and sold by the stock broker. All the other trades were squared off resulting in no deliveries to the stock exchange. In the absence of any convincing reasons afforded by the stock broker, its admission that it was involved in speculation and the act of squaring off its trades would imply that the stock broker was not genuinely interested in taking or giving delivery of the shares. Such trades of the stock broker were also the cause for the increase in the share price of the company from Rs.22/- on March 21, 1996 to Rs.40.50/- on April 12, 1996. The stock broker also executed proprietary trades in the shares of the company. Such trading activity of the stock broker caused a false and misleading appearance of trading in the shares of the company.

6. Further, it was also found that the stock broker had indulged in transactions which were prima facie not genuine trades. It was found that those transactions were squared off with the same counter party stock broker. Such transactions are shown below for the sake of reference:

Date	Buying member	Selling member	Quantity	Rate(Rs.)
4.4.96	Geeta & Co.	Aggarwal Ram Paul	5,000	27.75
4.4.96	Aggarwal Ram Paul	Geeta & Co.	5,000	31.75
8.4.96	Kapoor Chand Jain	Aggarwal Ram Paul	4,000	35.25
8.4.96	Aggarwal Ram Paul	Kapoor Chand Jain	4,000	31.50
11.4.96	Charanjeet Singh	Aggarwal Ram Paul	1,000	34.25

11.4.96	Aggarwal Ram Paul	Charanjeet Singh	1,000	36.75
12.4.96	B Mittal & Co.	Aggarwal Ram Paul	4,000	36.25
12.4.96	Aggarwal Ram Paul	B Mittal & Co.	4,000	40.50

It was also found from the 'sauda book' maintained by the stock broker that the said transactions were not carried for any client. It was concluded that such transactions were in the nature of financing trades for shifting profits or losses. The Enquiry Officer had observed that the stock broker had not given any comments on the charge of non-genuine trades and had presumed that the stock broker had nothing to say on the matter. From the table above, I find that the transaction which were squared off were in the nature of 'trade reversals'. It can be seen that, on April 04, 1996, the stock broker had sold 5000 shares of the company at the rate of Rs.27.75/- per share to M/s. Geeta & Co. (Member, LSE). On the very same day, the stock broker had purchased 5000 shares from the said stock broker at the price of Rs.31.75/- per share. Such instances have been noticed on April 08, 1996, April 11, 1996 and April 12, 1996. In the absence of any submissions to the contrary from the stock broker, I, find that such transactions of the stock broker at LSE were not genuine ones.

7. The next issue is to examine whether the stock broker had indulged in 'carry forward transactions'. Carry Forward Transactions refers to those transactions when the settlement of the trades do not happen as stipulated but is carried forward to the next settlement or subsequent settlement. The investigations had noticed that the stock broker had indulged in carry forward transactions in the shares of the company. The show cause notice had alleged that the stock broker had entered into carry forward transactions with M/s R. K. Bansal and M/s. Century Fiscal Services Limited (both members of LSE). It was alleged that at the relevant period, carry forward transactions were not allowed on the floor of LSE. Details of such transactions were communicated to the

stock broker in the show cause notice (when the matter was pending with the Enquiry Officer). I note that, on March 29, 1996 (which was Friday), the stock broker purchased 80,000 shares from M/s Century Fiscal Services Limited and 10,000 shares from M/s R K Bansal. These shares were purchased @ Rs.28.50/- per share. On March 25, 1996 (i.e. on Monday), reverse transactions were entered by these brokers @ Rs. 28.70/-. Similar pattern was observed for many transactions entered by the stock broker during the period under investigation. Since LSE was following weekly settlement at that time, thus positions were closed by these stock brokers at the end of week, which were reopened at the start of next week. The difference between the share price of transactions at the end of week and opening of next week price (i.e. Rs. 28.70 less Rs. 28.50 of Rs.0.20) was apparently on account of carry forward charges. Clearly, these were in the nature of carry forward transactions. The same was also dealt by the Enquiry Officer. The Enquiry Officer had observed that the stock broker had not offered its comments on the charge of unofficial carry forward transactions. No submission was made by the stock broker refuting such allegation/observation. In view of the above, I am in agreement with such findings of the Enquiry Officer.

8. In view of the foregoing, I find that the stock broker had entered into non-genuine transactions thereby impacting the price of the securities of the company at LSE during the relevant period. Further, I find that the stock broker by its non-genuine transactions, created a false and misleading appearance of trading of the shares of the company at LSE. Thus, by its acts, the stock broker has contravened the provisions of Regulation 4 (a), (b) and (c) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995.

9. In the present case, it is already found that the trades of the stock broker created a misleading appearance of trading and manipulation of the price of the

shares of the company. It amply makes it clear that the stock broker, instead of abiding by the Code of Conduct as expected of a SEBI registered intermediary, became a party to the manipulation in the shares of the company to the detriment of genuine investors. Further, being an intermediary operating in the securities market, a stock broker shall act with due skill, care and diligence in the conduct of his business dealings. He has got a duty not only towards the securities market but also to the investors in general. Thus, the stock broker has also contravened the provisions of Clause A (2), (3), (4) & (5) of the Code of Conduct prescribed for stock brokers in Schedule II of the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992. An intermediary who fails to perform such duties deserves to be punished in accordance with law.

10. I note that the present case has been initiated under the provisions of the Enquiry Regulations. Subsequently, in 2008, the Enquiry Regulations were repealed by the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 (2008 Regulations). Though, the said Regulation was repealed anything done and any action taken under the Enquiry Regulations before the publication of the 2008 Regulations in the Official Gazette are deemed to have been done or taken or commenced under the corresponding provisions of the 2008 Regulations. Therefore, this order is being passed under the corresponding provisions of the Securities and Exchange Board of India (Intermediaries Regulations), 2008.

11. In view of the foregoing, I, in exercise of the powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28 (2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby suspend the certificate of registration of the stock broker viz. M/s. Aggarwal Ram Paul & Co. (Registration

number INB 120817018), Member, Ludhiana Stock Exchange Limited, for a period of fifteen days.

12. This order shall come into force immediately after the expiry of twenty one days from the date of this order.

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

**Place: Mumbai  
Date: April 28, 2009**