ADJUDICATION ORDER NO. - BS/AO-10/2008

ORDER UNDER SECTION 15I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES, 1995 IN THE MATTER OF ADJUDICATION PROCEEDINGS AGAINST STOCK BROKER MOTILAL OSWAL SECURITIES LTD.

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') initiated adjudication proceedings against Motilal Oswal Securities Ltd. (hereinafter referred to as "MOSL"), a broker registered with BSE and NSE in respect of its dealings in scrips on May 17, 2004. The undersigned was appointed as the adjudicating officer to inquire into and adjudge under Section 15I read with Sections 15HA and 15HB of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the 'SEBI Act'), the following violations alleged to have been committed by the noticee in respect of its dealings in scrips on May 17, 2004.

    I. Securities and Exchange Board of India Act, 1992

    II. Clause A(2), A(5) and B(7) of the code of conduct for stock brokers specified in schedule II of Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992

    III. Regulation 2(c)(5) read with Regulation 4(1) and 4(2) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003

    IV. SEBI circular SMD-I/23341 dated November 18, 1993, SMD/Policy/Circular/5-97 dated April 11, 1997, SMD/Policy/IECG/1-97 dated February 11, 1997 and SEBI/MIRSD/SE/CIR-42/2003 dated November 19, 2003

FACTS OF THE CASE

2. A sharp fall in the stock market occurred on May 17, 2004. The stock indices BSE Sensex recorded an intra-day fall of 842 points and closed around 564.71 points down. The NSE CNX Nifty recorded an intra-day fall of 291.6 points and closed at 193.75 points down. In view of the sharp fall, the trading on May 17, 2004 was suspended twice. The trading took place in three time slots: Timeslot 1 - 9:55 to 10:16 hrs; Timeslot 2 - 11:15 to 11:19 hrs and Timeslot 3 - 13:15 to 15:30 hrs. It was observed that the fall was more particular in 15 scrips and their stock futures namely, Bharti Televentures, BPCL, GAIL, HPCL, HLL, IOC, INFOSYS, ITC, ONGC,

Reliance Energy (REL), Reliance Industries (RIL), SBI, TISCO, TATAMOTORS and WIPRO and Nifty Futures.

3. In this connection, a formal investigation into the dealings of MOSL was initiated by SEBI. An inspection of the books of accounts and other records of MOSL was also conducted by SEBI in Mumbai. On the basis of the findings of investigation and inspection, it is alleged that MOSL contravened various provisions of law as stated above in respect of its dealings in securities on May 17, 2004.

NOTICE AND REPLY

4. A Show Cause Notice (hereinafter referred to as 'SCN') A&E/BS/40/2006 dated November 17, 2006 was issued to MOSL in terms of the provisions of Rule 4 of SEBI (Procedure for Holding Inquiry and Imposing penalties by Adjudicating Officers) Rules, 1995 (hereinafter referred to as the Rules), requiring MOSL to show cause as to why an inquiry should not be held for the violation alleged to have been committed by it.

5. MOSL vide letter dated November 29, 2006 submitted that it had received a notice vide letter no. IVD/MSR/RT/31492/2005 dated January 19, 2005 under Regulation 6 (1) of the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 and submitted its detailed reply vide its letter dated February 28, 2005. It is submitted by the noticee that the allegations contained in the present notice are the same as those contained in the earlier notice dated January 19, 2005. MOSL further requested that its reply dated February 28, 2005 and representation made during the personal hearing pursuant to the notice dated January 19, 2005 may be considered as its reply in response to the present show cause notice dated November 17, 2006.

CONSIDERATION OF EVIDENCE AND FINDINGS OF ENQUIRY

6. I have carefully perused the various allegations against MOSL and submissions made by MOSL on the same and following issues can be framed on the basis of the same.

    I. Whether trades by MOSL on May 17, 2004 were genuine and whether such trades contributed to fall in the market on that day?

    II. Whether MOSL acted in a reckless and irresponsible manner in executing the orders of the clients as well as in advising the clients on market situation.

III. Allegations specific to inspection of the books of accounts of MOSL.

ISSUE NO. 1: WHETHER THE TRADES EXECUTED BY MOSL RESULTED IN FALL OF MARKET

7. The first issue for consideration is whether the trades executed by MOSL on May 17, 2004 were genuine and whether such trades contributed to a fall in the market on that day. The said issue is based on the following allegations as observed in the investigation report:

    I. MOSL sold more than its average daily sale in certain scrips on May 17, 2004.

    II. Trades by MOSL in certain scrips are significant in comparison to total market turnover.

    III. Trades by MOSL brought down the price of various scrips.

8. MOSL had submitted that its trading on May 17, 2004 was not different from its usual trading on behalf of clients. In this regard as per information furnished by MOSL, the percentage breakup of turnover of MOSL for the period from April, 2004 to August, 2004 in respect of various accounts vis-à-vis its percentage of turnover on May 17, 2004 are as follows:

Table 1

Client Type	**Approx % based on Turnover(volume-wise)**	**Approx % based on Turnover on May 17, 2004**
Retail	70.41	46.11
Own	0.41	0.47
FII	18.07	41.22
Mutual fund & others	10.80	12.00
PMS	0.30	0.20
Total	**100**	**100**

9. The trading details of MOSL in the select 15 scrips and Nifty futures on May 17, 2004, on May 03, 14 and 20, 2004 as well as for the period of one month prior to May 17, 2004 i.e. from April 15, 2004 to May 14, 2004 in

both cash and F&O segments are given hereunder:

Summary of Trades of MOSL in 15 scrips and Nifty Futures on May 17, 2004:

Table 2

	NSE			BSE			NSE F & O			Across Ex & Seg Net
Scrip	BUY	SELL	NET	BUY	SELL	NET	BUY	SELL	NET	
BHARTI TEL	71114	83766	-12652	58686	126069	-67383	0	0	0	-80035
BPCL	104294	8589	95705	75757	31507	44250	550	6600	-6050	133905
Gail	41728	75123	-33395	37410	76216	-38806	9000	27000	-18000	-90201
HLL	3650	33810	-30160	6609	9690	-3081	7000	4000	3000	-30241
HPCL	244857	122934	121923	86404	124134	-37730	7800	19500	-11700	72493
INFOSYS	1716	509	1207	2329	1591	738	400	2750	-2350	-405
IOC	6041	6511	-470	2717	3775	-1058	1800	8400	-6600	-8128
ITC	230	285	-55	22	10	12	0	0	0	-43
ONGC	19804	84366	-64562	7719	108130	-100411	35700	7500	28200	-136773
REL	1147	1387	-240	1070	1701	-631	550	2750	-2200	-3071
RIL	39110	193410	-154300	36376	28832	7544	5400	76200	-70800	-217556
SBI	14830	16055	-1225	20422	18775	1647	1500	111500	-110000	-109578
TATAMOTORS	34584	144524	-109940	31710	43330	-11620	10725	55275	-44500	-166060
TISCO	29172	78704	-49532	49965	58564	-8599	13500	48600	-35100	-93231
Wipro	3335	1069	2266	1624	543	1081	800	5000	-4200	-853

Average daily turnover of the top ten scrips traded by MOSL during the period of one month prior to May 17, 2004 i.e. from April 15, 2004 to May 14, 2004:

BSE Cash Segment – Top Ten scrips Average Daily T/O

Table 3

Scrip	Buy Qty	Buy Value	Sell Qty	Sell Value
RELIANCE INDUSTRIES	37626	19637617	60915	32543116
STATE BANK OF INDIA	32230	19663657	30702	19080023
MARUTI UDYOG	37101	19686850	27418	14562216
BHARTI TELE	105694	17841458	83687	13939264
HINDUSTAN PETROLEUM	55787	24524806	17626	7161042
BIRLA CORPOR	174805	18205824	110182	10826783
TATA IORN AND STEEL	41368	14885814	39069	14108880
BIOCON LTD	21614	13113633	22005	13295772
INFOSYS TECHNOLOGIES	2088	11028012	2939	15125529
TATA ENGG	19368	9161774	20847	9660138

NSE Cash Segment – Top Ten scrips Average Daily T/O

Table 4

Scrip	Buy Qty	Value	Sell Qty	Value
RELIANCE INDUSTRIES LTD	52518	27423442	78603	41551115
HINDUSTAN PERTOLEUM	73110	32774072	24849	10217457
MARUTI UDYOG LTD	41189	21863726	35872	18986494
STATE BANK OF INDIA	37971	23253210	27506	17105192
BHARTI TELE-VENTURES	107948	18375386	102469	17244770
OIL AND NATURAL GAS	18618	15698539	16829	14044012
BIRLA CORPORATION LTD	199146	21456967	72872	7526990
SATYAM COMPUTER SERV	50459	15596793	40245	12573906
PUNJAB NATIONAL BANK	43391	15938638	27872	9811615
BHARAT PETROLEUM COR	16476	7302827	31771	13882242

NSE F & O Segment – Top Ten scrips Average Daily T/O

Table 5

Scrip	Buy Qty	Buy Amt	Sell Qty	Sell Amt	Gross Qty	Gross Value
NIFTY	149133.33	266143511	264505	473720902	413638	739864413
TISCO	122614.29	44317393	104229	39300999	226843	83618392
SBIN	44000	28222183	77738	48883534	121738	77105717
RELIANCE	62714	34066882	55200	30093498	117914	64160381
ONGC	14414	12101857	36757	31439451	51171	43541308
TATAPOWER	48990	19196063	42476	17094111	91467	36290174
HINDPETRO	23029	10359910	50174	22763920	73202	33123830
TATAMOTORS	34611	16749609	30721	14863818	65332	31613428
ACC	57857	16013797	53643	14920418	111500	30934214
INFOSYSTCH	2524	13246525	3024	15747162	5548	28993687

BSE Cash Segment – 15 short-listed scrips Average Daily T/O

Table 6

Scrip	Buy Qty	Buy Value	Sell Qty	Sell Value
BHARAT PETROLEUM COR	14086	6620565	20614	9538126
BHARTI TELE	105694	17841458	83687	13939264
GAS AUTHORTY	24016	5303842	25868	5772518
HIND LEVERCH	28	9216	50	15417
HINDUSTAN PETROLEUM	55787	24524806	17626	7161042
INDIAN OIL C	7179	3649336	7236	3743711
INFOSYS TECHNOLOGIES	2088	11028012	2939	15125529
I T C LTD	851	872543	1247	1254898
ONG CORP LTD	7823	6561950	7830	6551801
RELIANCE ENERGY	655	484024	602	444151
RELIANCE INDUSTRIES	37626	19637617	60915	32543116
TATA IORN AND STEEL	41368	14885814	39069	14108880

Scrip	Buy Qty	Buy Value	Sell Qty	Sell Value
TATA MOTORS	884	421973	855	406841
WIPRO LTD.	4440	7141478	2136	3375014

NSE Cash Segment – 15 short-listed scrips Average Daily T/O

Table 7

Scrip	Buy Qty	Value	Sell Qty	Value
BHARAT PETROLEUM COR	16476	7302827	31771	13882242
BHARTI TELE-VENTURES	107948	18375386	102469	17244770
GAS AUTHORITY OF IND	32390	7117993	25653	5519906
HINDLEVER	0	0	568	3667
HINDUSTAN PERTOLEUM	73110	32774072	24849	10217457
INDIAN OIL CORP LTD	9587	4751096	11157	5635090
INFOSYS TECHNOLOGIES	1365	7064659	2421	12423175
ITC LTD	5922	6151104	6042	5996441
OIL AND NATURAL GAS	18618	15698539	16829	14044012
RELIANCE INDUSTRIES LTD	52518	27423442	78603	41551115
RELINACE ENERGY LTD	820	597424	1721	1230297
TATA IRON AND STEEL	30027	10659395	27672	9638809
TATA MOTORS	16954	7919929	20391	9230516
WIPRO LTD	2935	4586915	4054	6294454

NSE F & O Segment – 15 short-listed scrips Average Daily T/O

Table 8

Scrip	Buy Qty	Buy Amt	Sell Qty	Sell Amt	Gross Qty	Gross Value
BPCL	30564	12748247	30538	13539505	61102	26287752
GAIL	50000	11224617	54786	12414703	104786	23639321
HINDLEVER	29381	4145861	10000	1469114	39381	5614975
HINDPETRO	23029	10359910	50174	22763920	73202	33123830
INFOSYSTCH	2524	13246525	3024	15747162	5548	28993687
IOC	11086	5668926	13800	7422653	24886	13091578
ITC	1357	1318763	300	314806	1657	1633569
NIFTY	149133	266143511	264505	473720902	413638	739864413
ONGC	14414	12101857	36757	31439451	51171	43541308
REL	6469	4922237	8800	6586978	15269	11509214
RELIANCE	62714	34066882	55200	30093498	117914	64160381
SBIN	44000	28222183	77738	48883534	121738	77105717
TATAMOTORS	34611	16749609	30721	14863818	65332	31613428
TISCO	122614	44317393	104229	39300999	226843	83618392
WIPRO	7676	11945426	8314	12931182	15990	24876607

Allegation: MOSL sold more than its average daily sale in certain scrips on May 17, 2004

10. From the above details, it is alleged that on May 17, 2004, in the Cash segment, selling by MOSL was higher than the average daily sell volume during the past one month in the scrips of BHARTITELE, GAIL, HLL, HPCL, ONGC, RIL, REL, TATAMOTORS and TISCO. Its average daily sales in the above mentioned scrips in the cash segment during the past one month were 186156 shares, 51521 shares, 618 shares, 42475 shares, 24659 shares, 2323 shares, 139518 shares, 28527 shares, 59460 shares respectively, but on May 17 2004, the sales in the above scrips were substantially higher at 209835 shares, 151339 shares, 43500 shares, 247068 shares, 192496 shares, 3088 shares, 222242 shares, 187854 shares and 137268 shares respectively.

Analysis of Trades on May 3, 14, 17 and 20 May 2004

11. The trading pattern of MOSL on May 3, 14, 17, and 20, 2004 was also analyzed during the course of investigation. A table of comparison of the total trades done by MOSL on these days is given below:

Table 9

		NSE			BSE			NSE F & O			Across
Scrip	**Date**	**BUY**	**SELL**	**NET**	**BUY**	**SELL**	**NET**	**BUY**	**SELL**	**NET**	**Ex & Seg Net**
BHARTI TEL	03-05-2004	43710	45965	-2255	32457	33407	-950	0	0	0	-3205
	14-05-2004	133332	101154	32178	129408	165069	-35661	0	0	0	-3483
	17-05-2004	71114	83766	-12652	58686	126069	-67383	0	0	0	-80035
	20-05-2004	75556	94966	-19410	81738	69945	11793	0	0	0	-7617
BPCL	03-05-2004	1815	1290	525	3059	2409	650	4400	6050	-1650	-475
	14-05-2004	23072	8085	14987	20959	8433	12526	13200	11000	2200	29713
	17-05-2004	104294	8589	95705	75757	31507	44250	550	6600	-6050	133905
	20-05-2004	7010	12697	-5687	7420	7105	315	15400	12100	3300	-2072
GAIL	03-05-2004	18969	21180	-2211	17306	15789	1517	28500	16500	12000	11306
	14-05-2004	51621	26729	24892	45504	33580	11924	61500	52500	9000	45816
	17-05-2004	41728	75123	-33395	37410	76216	-38806	9000	27000	-18000	-90201
	20-05-2004	104067	122585	-18518	86270	86790	-520	81000	84000	-3000	-22038
HLL	03-05-2004	2616	6211	-3595	1147	7720	-6573	3000	1000	2000	-8168
	14-05-2004	20412	4374	16038	5665	9440	-3775	1000	16000	-15000	-2737
	17-05-2004	3650	33810	-30160	6609	9690	-3081	7000	4000	3000	-30241

		NSE			BSE			NSE F & O			Across
Scrip	**Date**	**BUY**	**SELL**	**NET**	**BUY**	**SELL**	**NET**	**BUY**	**SELL**	**NET**	**Ex & Seg Net**
	20-05-2004	3163	109829	-106666	3400	21640	-18240	14000	12000	2000	-122906
HPCL	03-05-2004	10660	8315	2345	4913	3306	1607	10400	5200	5200	9152
	14-05-2004	73771	31588	42183	51341	21475	29866	37700	39650	-1950	70099
	17-05-2004	244857	122934	121923	86404	124134	-37730	7800	19500	-11700	72493
	20-05-2004	16457	91103	-74646	12008	67678	-55670	16900	11700	5200	-125116
INFOSYS	03-05-2004	974	990	-16	2329	2206	123	1450	900	550	657
	14-05-2004	1970	14703	-12733	1377	1319	58	1250	8100	-6850	-19525
	17-05-2004	1716	509	1207	2329	1591	738	400	2750	-2350	-405
	20-05-2004	2157	3164	-1007	1701	856	845	2300	100	2200	2038
IOC	03-05-2004	19173	6148	13025	16445	5491	10954	3600	3000	600	24579
	14-05-2004	18013	33651	-15638	5604	10073	-4469	3000	7800	-4800	-24907
	17-05-2004	6041	6511	-470	2717	3775	-1058	1800	8400	-6600	-8128
	20-05-2004	8452	7836	616	3803	3108	695	600	3000	-2400	-1089
ITC	03-05-2004	2650	2685	-35	415	731	-316	600	0	600	249
	14-05-2004	2973	1600	1373	80	0	80	0	0	0	1453
	17-05-2004	230	285	-55	22	10	12	0	0	0	-43
	20-05-2004	1150	6380	-5230	0	0	0	0	0	0	-5230
ONGC	03-05-2004	9222	9505	-283	2260	3228	-968	4500	5100	-600	-1851
	14-05-2004	24125	17406	7079	22502	18483	4019	24000	30000	-6000	5098
	17-05-2004	19804	84366	-64562	7719	108130	-100411	35700	7500	28200	-136773
	20-05-2004	30592	64936	-34344	16702	34589	-17887	14700	19800	-5100	-57331
REL	03-05-2004	2079	1960	119	275	95	180	0	0	0	299
	14-05-2004	3598	800	2798	2930	2250	680	0	0	0	3478
	17-05-2004	1147	1387	-240	1070	1701	-631	550	2750	-2200	-3071
	20-05-2004	1101	35061	-33690	675	45250	-44575	3300	163900	-160600	-238865
RIL	03-05-2004	35069	36318	-1249	29103	29595	-492	43800	27000	16800	15059
	14-05-2004	82390	62114	20276	67112	51770	15342	96600	112200	-15600	20018
	17-05-2004	39110	193410	-154300	36376	28832	7544	5400	76200	-70800	-217556
	20-05-2004	68686	91096	-22410	54134	43366	10768	23400	25200	-1800	-13442
SBI	03-05-2004	31363	30683	680	24779	24480	299	26500	29500	-3000	-2021

		NSE			BSE			NSE F & O			Across Ex & Seg Net
Scrip	**Date**	**BUY**	**SELL**	**NET**	**BUY**	**SELL**	**NET**	**BUY**	**SELL**	**NET**	
	14-05-2004	159546	53646	105900	148236	68257	79979	24500	126500	-102000	83879
	17-05-2004	14830	16055	-1225	20422	18775	1647	1500	111500	-110000	-109578
	20-05-2004	49815	49432	383	45903	38933	6970	22500	7500	15000	22353
TATAMOTORS	03-05-2004	46735	36079	10656	17625	12020	5605	25575	26400	-825	15436
	14-05-2004	17415	133906	-116491	34313	132000	-97687	23925	34650	-10725	-224903
	17-05-2004	34584	144524	-109940	31710	43330	-11620	10725	55275	-44500	-166060
	20-05-2004	21896	39767	-17871	29565	19410	10155	24750	16500	8250	534
TISCO	03-05-2004	20636	20096	540	42680	40119	2561	70200	34200	36000	39101
	14-05-2004	57090	42491	14599	73627	55379	18248	47700	53100	-5400	27447
	17-05-2004	29172	78704	-49532	49965	58564	-8599	13500	48600	-35100	-93231
	20-05-2004	164663	412711	-248048	146555	331379	-184824	103500	86400	17100	-415772
WIPRO	03-05-2004	3683	2915	768	1984	1951	33	800	2400	-1600	-799
	14-05-2004	8336	18756	-10420	3069	1717	1352	400	16400	-16000	-25068
	17-05-2004	3335	1069	2266	1624	543	1081	800	5000	-4200	-853
	20-05-2004	2411	6972	-4561	1372	655	717	1000	0	1000	-2844

Time Slot-wise details of the trades done by MOSL

12. During the course of the investigation, time slot-wise analysis of trades done by MOSL on May 17, 2004 was also carried out. The details of the same alongwith the percentage of its sales in different slots on May 17, 2004 in comparison to the total market turnover are given in the table below:

NSE Cash Segment

Table 10

	Slot 1			Slot 2			Slot 3		
SCRIP	**Market TO**	**Gross Sell**	**% to Market**	**Total Mkt Turnover Qty**	**Motilal Oswal**	**%of Motilal to Market**	**Total Mkt Turnover Qty**	**Motilal Oswal**	**%of Motilal to Market**
BHARTI	685533	25960	3.79	75569	1885	2.49	3332588	55921	1.68
BPCL	371803	815	0.22	25251	0	0	1833942	7774	0.42
GAIL	1509495	57175	3.79	119938		0	7551867	17916	0.24
HINDLEVER	263492	110	0.04	24764		0	2027544	33700	1.66
HINDPETRO	681638	11274	1.65	19031		0	2929149	111660	3.81
INFOSYSTCH	65378	53	0.08	5760		0	425224	456	0.11
IOC	262972	3795	1.44	51403	25	0.05	735643	2691	0.37
ITC	36060	185	0.51	3545		0	255459	100	0.04
ONGC	868725	5318	0.61	86474		0	3128103	79048	2.53
REL	39283	100	0.25	2734	0	0	345269	1287	0.37
RELIANCE	1447830	13795	0.95	66236		0	7847267	179615	2.29
SBIN	791978	6000	0.76	68304	200	0.29	2709057	9855	0.36
TATAMOTORS	684999	53929	7.87	67558	21171	31.34	5000842	69424	1.39
TISCO	1264639	8996	0.71	123134	450	0.37	6360308	69258	1.09
WIPRO	41961	111	0.26	3755	50	1.33	341979	908	0.27

BSE Cash Segment

Table 11

	Slot 1			Slot 2			Slot 3		
SCRIP	**Market TO**	**Gross Sell**	**% to Market**	**Total Mkt Turnover Qty**	**Motilal Oswal**	**%of Motilal to Market**	**Total Mkt Turnover Qty**	**Motilal Oswal**	**%of Motilal to Market**
BHARAT PETROLEUM CORPN LTD.	183920	3426	1.86	38063	3450	9.06	748001	25366	3.39
BHARTI TELE VENTURES LTD.	199332	28385	14.24	61991	5832	9.41	1231587	102298	8.31
GAIL(INDIA) LTD.,	686435	50036	7.29	122052	4253	3.48	3315471	29396	0.89
HINDUSTAN LEVER LTD.	75175	1445	1.92	24450	20	0.08	819342	8235	1.01
HINDUSTAN PETROLEUM CORP LTD	264403	9840	3.72	46406	4320	9.31	1139543	111078	9.75
INDIAN OIL CORPORATION LTD.	70024	450	0.64	15552	450	2.89	260316	3175	1.22
INFOSYS	25159	440	1.75	8610	93	1.08	173373	1298	0.75

	Slot 1			Slot 2			Slot 3		
SCRIP	**Market TO**	**Gross Sell**	**% to Market**	**Total Mkt Turnover Qty**	**Motilal Oswal**	**%of Motilal to Market**	**Total Mkt Turnover Qty**	**Motilal Oswal**	**%of Motilal to Market**
TECHNOLOGIES LTD.									
ITC LTD.	5578	0	0	207	0	0	92832	10	0.01
ONGC CORPN	386979	4091	1.06	55107	1460	2.65	1509506	1.00E+05	6.88
RELIANCE ENERGY LTD.	17431	50	0.29	3396	0	0	162268	1901	1.17
RELIANCE INDUSTRIES LTD.	876107	5675	0.65	293172	1302	0.44	5336770	24045	0.45
STATE BANK OF INDIA	472132	4780	1.01	80526	1110	1.38	1793553	13615	0.76
TATA ENGG & LOCO CO. LTD.	290109	20500	7.07	98503	9960	10.11	1830948	13380	0.73
TATA IRON & STEEL CO. LTD.	846507	5095	0.6	216247	5120	2.37	3214697	51919	1.62
WIPRO LTD.	10749	88	0.82	5305	10	0.19	113751	465	0.41

NSE F & O Segment

Table 12

	Slot 1			Slot 3		
SCRIP	**Market TO**	**Gross Sell**	**% to Market**	**Market TO**	**Gross Sell**	**% to Market**
NIFTY	5057800		0	11511600	0	0
BPCL	213950	550	0.26	485650	6050	1.25
GAIL	1374000	3000	0.22	3834000	24000	0.63
HINDLEVER	345000	3000	0.87	1318000	0	0
HINDPETRO	475150	8450	1.78	1154400	12050	1.04
INFOSYSTCH	52550	2000	3.81	175750	750	0.43
IOC	195000	600	0.31	362400	7800	2.15
ITC	27000	0	0	76500	0	0
ONGC	666600	900	0.14	1431000	6600	0.46
REL	91300	1100	1.2	267850	1650	0.62
RELIANCE	2092200	35400	1.69	5037000	40800	0.81
SBIN	1088000	1500	0.14	1759000	110000	6.25
TATAMOTORS	1107150	9900	0.89	3988875	45375	1.14
TISCO	1945800	2700	0.14	6194700	45900	0.74
WIPRO	49800	0	0	174000	5000	2.87

There were no trades reported for time slot 2

Allegation: Trades by MOSL in certain scrips are significant in comparison to total market turnover

13. From the above table of comparison, it is alleged that in some scrips, MOSL had traded significantly in comparison to the total market turnover in various time slots on May 17, 2004. In the scrip of TATA MOTORS, during the first time slot in NSE cash market, MOSL had a gross sell quantity of 53929 shares amounting to 7.87% of total market volume. Again in the second time slot, MOSL had sold 21171 shares of TATA MOTORS accounting for 31.34 % of the market gross. In the scrip of BHARTITELE in BSE CM MOSL had sold 14.24%, 9.41% and 8.31% of the market gross in the 1st, 2nd , and 3rd slots respectively. In the scrip of GAIL, in the 1st slot in BSE MOSL had sold about 7.29% of the market gross and in both the exchanges MOSL had sold about 4.8 % of the market gross.

PMS Trading

14. From the details submitted by MOSL, the following are its trades in the PMS account (discretionary) on May 17, 2004.

Table 13

SCRIP	BUY/SELL	QTY	NET RATE	AMOUNT
BHARATI TELEVENTURES	Buy	7891	127.28	1004366
BHEL	Buy	176	436.2	76771
HEROHONDA	Buy	1920	387.08	743193
INDIA CEMENT	Buy	6870	31.60	217092
INFOSYS TECH	Buy	84	4825.92	405377
IPCA LAB	Buy	1346	494.13	665434
NIIT	Buy	686	126.07	86484
RANBAXY LAB	Buy	368	999.77	367915
RELIANCE	Buy	513	440.94	226202
STATE BANK OF INDIA	Buy	1651	437.35	722064
TOTAL				**4514898**

15. It is further noted from the findings of investigation that all purchases by MOSL in its PMS account on discretionary basis were in the third time slot on May 17, 2004 when the price of the scrips had already gone down.

TRADE LOG AND ORDER LOG ANALYSIS

Allegation: Trades by MOSL brought down the price of various scrips

16. The scrip-wise transactions of MOSL in the select 15 scrips and Nifty Futures on May 17, 2004 which had negative impact on the Last Traded Price (hereinafter referred to as LTP) as per the trade and order log analysis are given below.

17. In this regard, it is alleged that in numerous instances in a number of scrips indicated that MOSL sold at a price much lower than the LTP. In this regard it is alleged that as on May 17, 2004 there was lesser volume in the market and in view of the inadequate buying support even small quantity of sales could have brought down the price. Therefore, it was alleged that as a broker, MOSL must be well aware of the impact of its trades on reducing the price of the scrips on the fateful day of May 17, 2004.

GAIL

NSE Cash Segment

It is alleged that in the NSE cash segment, the sale orders put by MOSL influenced the price as compared to LTP significantly. As per the details given below:

Table 14

Trade Time	Trade Number	Traded Price	LTP	LTP%	Traded Qty	Sell Ord Time	Sell Order No	Sell Acc No	Sell Orig Vol	Sell Limit Price	Sell Lst Mod Time
9:56:09	1268	149.75	-0.25	**-0.17**	150	9:56:07	5008449	XPG080	500	0.05	9:56:09
9:56:09	1269	149	-0.75	**-0.50**	25	9:56:07	5008449	XPG080	500	149.75	9:56:09
9:56:09	1270	147.6	-1.4	**-0.94**	325	9:56:07	5008449	XPG080	500	149	9:56:09
			-2.4	**-1.61**	500		Total				
10:13:54	100304	133.1	0	**0.00**	122	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100305	133.1	0	**0.00**	60	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100306	133.05	-0.05	**-0.04**	1500	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100307	133	-0.05	**-0.04**	1	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100308	133	0	**0.00**	500	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100309	133	0	**0.00**	1500	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100310	133	0	**0.00**	1	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100311	133	0	**0.00**	1	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100312	133	0	**0.00**	9	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100313	132.65	-0.35	**-0.26**	401	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100314	132.55	-0.1	**-0.08**	25	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100315	132.5	-0.05	**-0.04**	1	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100316	132.5	0	**0.00**	1	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100317	132.5	0	**0.00**	2	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100318	132.4	-0.1	**-0.08**	100	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100319	132.4	0	**0.00**	100	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100320	132.3	-0.1	**-0.08**	10	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100321	132.1	-0.2	**-0.15**	50	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100322	132.05	-0.05	**-0.04**	25	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100323	132	-0.05	**-0.04**	100	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100324	132	0	**0.00**	100	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100325	132	0	**0.00**	50	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100326	132	0	**0.00**	1	10:13:54	5147200	H09215	7500	130	10:13:54

Trade Time	Trade Number	Traded Price	LTP	LTP%	Traded Qty	Sell Ord Time	Sell Order No	Sell Acc No	Sell Orig Vol	Sell Limit Price	Sell Lst Mod Time
10:13:54	100327	132	0	**0.00**	100	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100328	132	0	**0.00**	10	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:54	100329	132	0	**0.00**	32	10:13:54	5147200	H09215	7500	130	10:13:54
10:13:55	100330	132	0	**0.00**	10	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100331	132	0	**0.00**	100	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100332	132	0	**0.00**	500	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100333	132	0	**0.00**	300	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100334	132	0	**0.00**	300	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100335	132	0	**0.00**	10	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100336	132	0	**0.00**	100	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100337	132	0	**0.00**	1	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100338	132	0	**0.00**	50	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100339	132	0	**0.00**	1	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100340	132	0	**0.00**	50	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100341	132	0	**0.00**	1	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100342	132	0	**0.00**	1	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100343	132	0	**0.00**	1	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100344	132	0	**0.00**	1	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100345	132	0	**0.00**	1	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100346	132	0	**0.00**	100	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100347	132	0	**0.00**	2	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100348	131.7	-0.3	**-0.23**	500	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100349	131.35	-0.35	**-0.27**	500	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100350	131.25	-0.1	**-0.08**	50	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100351	131.1	-0.15	**-0.11**	50	10:13:54	5147200	H09215	7500	130	10:13:55
10:13:55	100352	131.1	0	**0.00**	69	10:13:54	5147200	H09215	7500	130	10:13:55
			-2	**-1.51**	7500		Total				
11:15:56	114048	111	-3.9	**-3.39**	50	11:15:55	5171888	SHD014	50	110	11:15:56
			-3.9	**-3.39**	50		Total				

18. It is alleged from the above that trades by MOSL influenced the price of GAIL with respect to LTP of the scrip on many occasions on May 17, 2004. The trade for the sell order 5008449 has influenced the price up to -1.44% at the very initial period of the opening of the trade on May 17, 2004. Again a few minutes later MOSL placed limit sell order at price of Rs 130 and sold the shares continuously at prices lower than LTP bringing the price down from Rs.133.10 to Rs.131.10. Further, at 11:15:56 AM MOSL put limit sell orders at Rs.110 bringing down the price of the scrip by -3.39% to Rs.111 vide order no. 5171888.

<u>HPCL</u>

NSE F&O segment

In NSE F & O segment, the impact of trading by MOSL on the price of HPCL scrip was as follows:

Table 15

Sell Ord a/c No.	Sell Order No	Sell Orig Vol	Trade No	Trade Time	Trade Activity Type	Trade Price	LTP	LTP%	Trd Qty.
H09456	12037	650	3880	9:57:42	2	292.05	-1.95	**-0.66**	650

BSE cash segment

In the BSE cash segment, orders of MOSL have impacted the price as compared to the LTP in the following manner:

Table 16

Trade No	Order No	Member Code	Qty	Price	LTP	**LTP%**	Time	Client Code
203	44616200000003534	D0446	200	300.00	-2.00	**-0.66**	09:56:40	H09386
377	44620100014574817	D0446	50	292.20	-1.80	**-0.61**	09:58:11	NT0126
386	44620100014574827	D0446	100	292.20	-2.80	**-0.95**	09:58:17	KOL41426
464	44620100014574887	D0446	50	293.00	-2.50	**-0.85**	09:59:02	TIS004
1279	44620100014575699	D0446	461	292.65	-2.05	**-0.70**	10:09:45	H08087
2008	44620100014576416	D0446	50	256.00	-3.90	**-1.50**	11:16:58	MLKS141
2009	44620100014576416	D0446	25	255.50	-0.50	**-0.20**	11:16:59	MLKS141
2010	44620100014576416	D0446	50	255.50	0.00	**0.00**	11:16:59	MLKS141
2011	44620100014576416	D0446	175	255.50	0.00	**0.00**	11:17:02	MLKS141
464	44620100014574887	D0446	50	293.00	-2.50	**-0.85**	09:59:02	TIS004
465	44620100014574887	D0446	75	292.50	-0.50	**-0.17**	09:59:02	TIS004
466	44620100014574887	D0446	59	292.20	-0.30	**-0.10**	09:59:02	TIS004
467	44620100014574887	D0446	16	292.20	0.00	**0.00**	09:59:02	TIS004

<u>INFOSYS</u>

BSE cash segment

The orders entered by MOSL have impacted the price as compared to LTP in the following manner:

Table 17

Sell Order No	Qty	LTP	LTP %
44620100004397942	5	-55	-1.22
44620100004398016	10	-50	-1.16

Trade details are as below:

Table 18

Time	Trade id	Qty	Rate	LTP	LTP %	Sell Order No	Sell Client Code	Sell Client Type
11:16:07	2115	2	4450.00	-50	-1.11	44620100004397942	KOLK42970	C
11:16:31	2191	2	4250.00	-50	-1.16	44620100004398016	RELS105	C
11:18:40	2560	10	4460.00	-30	-0.67	44620100004398175	GHYU015	C

Bharti Televentures Ltd

NSE Cash Segment

On the following occasions, MOSL placed orders where the price of the scrip was significantly lower than LTP.

Table 19

Trade Time	Trade No	Traded Price	Traded Quantity	LTP %	Sell Ord Time	Sell Order No.	Sell Acc No	Sell Orig Vol	Sell Limit Price
9:57:30	8179	130.15	385	**-0.61**	9:57:22	175020767	XG338	500	Mkt
10:06:20	58392	134.05	50	**-0.63**	10:06:20	175095024	XD521	50	134
11:15:55	114004	127	100	**-0.51**	11:15:55	175171813	HDH003	100	127
11:16:02	114888	124	20	**-0.80**	11:16:02	175172871	XP080	200	Mkt

Further, the following sell trades negatively impacted the price of the above scrip

Table 20

Trade Time	Trade No	Traded Price	LTP %	Traded Quan	Sell Ord Time	Sell Order No	Sell Acc No	Sell Orig Vol	Sell Limit Price
9:57:30	8171	131	-0.38	7	9:57:22	20767	XG338	500	Mkt
9:57:30	8172	131	0.00	1	9:57:22	20767	XG338	500	Mkt
9:57:30	8173	131	0.00	100	9:57:22	20767	XG338	500	Mkt
9:57:30	8174	131	0.00	1	9:57:22	20767	XG338	500	Mkt
9:57:30	8175	131	0.00	1	9:57:22	20767	XG338	500	Mkt
9:57:30	8176	131	0.00	1	9:57:22	20767	XG338	500	Mkt
9:57:30	8177	131	0.00	3	9:57:22	20767	XG338	500	Mkt
9:57:30	8178	130.95	-0.04	1	9:57:22	20767	XG338	500	Mkt
9:57:30	8179	130.15	-0.61	385	9:57:22	20767	XG338	500	Mkt
			-1.03			20767			
9:58:24	13300	130.9	0.00	477	9:58:24	30255	HD0071	5000	129.5
9:58:24	13301	130.9	0.00	100	9:58:24	30255	HD0071	5000	129.5
9:58:24	13302	130.6	-0.23	2,000	9:58:24	30255	HD0071	5000	129.5
9:58:24	13303	130.4	-0.15	500	9:58:24	30255	HD0071	5000	129.5

Trade Time	Trade No	Traded Price	LTP %	Traded Quan	Sell Ord Time	Sell Order No	Sell Acc No	Sell Orig Vol	Sell Limit Price
9:58:24	13304	130.3	-0.08	100	9:58:24	30255	HD0071	5000	129.5
9:58:24	13305	130	-0.23	550	9:58:24	30255	HD0071	5000	129.5
9:58:24	13306	130	0.00	2	9:58:24	30255	HD0071	5000	129.5
9:58:24	13307	129.5	-0.38	10	9:58:24	30255	HD0071	5000	129.5
9:58:24	13308	129.5	0.00	1	9:58:24	30255	HD0071	5000	129.5
9:58:24	13313	129.5	0.00	962	9:58:24	30255	HD0071	5000	129.5
9:58:27	13600	129.5	0.00	50	9:58:24	30255	HD0071	5000	129.5
9:58:27	13641	129.5	0.00	248	9:58:24	30255	HD0071	5000	129.5
			-1.07			30255			
11:16:02	114888	124	-0.80	20	11:16:02	172871	XP080	200	Mkt
11:16:02	114889	124	0.00	100	11:16:02	172871	XP080	200	Mkt
11:16:02	114890	123.4	-0.48	80	11:16:02	172871	XP080	200	Mkt
			-1.28			172871			
11:16:10	115708	121	-1.71	35	11:16:10	173982	SHD014	85	120
			-1.71			173982			

BSE cash segment

In the BSE cash segment, the following trades executed by MOSL are alleged to have negatively impacted the price as compared to LTP.

Table 21

Trade Time	Trade id	Rate	LTP %	Qty	Sell Order No	Sell Client Code
9:55:38	32	140.5	**-0.71**	500	44620100014574544	JDT001
9:55:45	38	140.1	**-0.64**	400	44607300000033982	CHN185
9:56:25	85	136.1	**-0.66**	5	44620100014574635	BID257
9:56:44	109	135.1	**-0.63**	145	44600200010116167	KOL47128
9:57:01	134	133.4	**-0.82**	50	44620100014574708	KOL49376
9:57:09	143	133.5	**-0.67**	375	44609100000123485	NAG121
9:57:10	149	133.5	**-0.67**	75	44620100014574623	CR0050
9:57:59	210	128.5	**-1.15**	200	44620100014574802	KC0108
9:58:26	239	130.3	**-0.91**	100	44620100014574842	RDS043
9:58:49	268	129	**-0.77**	100	44620100014574848	SGS0143
9:58:53	273	129.1	**-0.69**	100	44620100014574876	RNPP0114
10:11:53	1103	132.1	**-0.60**	5	44620100014575811	RAJCC020
11:15:44	1408	126	**-0.79**	100	44620100014576299	RELD022
11:15:56	1423	126.5	**-1.17**	100	44620100014576315	CP0041
11:17:56	1615	115	**-0.86**	95	44620100014576425	NT0206
11:19:00	1674	117	**-0.85**	1	44620100014576561	XC001
11:15:56	1423	126.5	**-1.17**	100	14576315	CP0041
9:57:59	210	128.5	**-1.15**	200	14574802	KC0108

It is further observed during the course of investigation that MOSL had sold the scrip at different prices ranging from Rs 140.5 to Rs 115. Initially, the shares were being sold at higher prices and later at lower prices.

<u>BPCL</u>

NSE F & O segment

It is alleged that in NSE F & O segment, the trades by MOSL negatively impacted the price of the scrip as compared to LTP in the following manner.

Table 22

Sell Order Time	Sell Order No	Sell Order Orig Vol	Trade Order No	Trade Time	Trade Activity Type	Trade Price	LTP	LTP%	Trade Qty
10:13:37	70510	550	26812	10:13:37	2	292	**-1.8**	-0.61	550

BSE cash segment

In the BSE cash segment, the sell orders entered by MOSL had negatively impacted the price as compared to the LTP in the following manner.

Table 23

Order No	Counter Party Code	Qty	Price	LTP	LTP%	Order Type	Book Type	Time	Client Code
44620100004396568	D0130	144	320.00	-3.50	-1.08	C	L	9:58:25	KOL 41426
44620100004396568	D0130	56	320.00	0.00	0.00	C	L	9:58:25	KOL 41426
44620100004396568 Total		200		**-3.50**	**-1.08**				

<u>TISCO:</u>

NSE cash segment

In NSE cash segment, the trades executed by MOSL negatively influenced the price of the scrip in the following manner.

Table 24

Trade Time	Trade No.	Traded Price	Qnty.	LTP %	Sell Order Time	Sell Order No.	Sell A/c No	Sell Orig. Vol.	Sell Limit Price
10:11:59	74412	271.1	25	**-0.66**	10:11:59	1751341 59	GHYN023	50	269

BSE cash segment

In BSE cash segment, MOSL placed the following orders on behalf of its clients bearing client codes viz. NVS0060 and KC0018 which resulted in price of the scrip coming down by -1.67% and -1.25% respectively, the details are as follows:

Table 25

Trade Time	TradeNo	Price	LTP %	Qty	OrderNo	ClientCode
11:16:33	4664	236.00	**-1.67**	390	44612900000024346	NVS0060
11:16:33	4665	236.00	**0.00**	500	44612900000024346	NVS0060
11:16:33	4666	236.00	**0.00**	110	44612900000024346	NVS0060
			-1.67		44612900000024346 Total	
11:16:42	4712	238.00	**-0.83**	70	44620100014576392	KC0018
11:16:42	4713	237.00	**-0.42**	30	44620100014576392	KC0018
			-1.25		44620100014576392 Total	

Tata Motors

NSE cash segment

In NSE cash segment, the client of MOSL, Goldman Sachs Investment, Mauritius had net sold about 21171 shares during the II time slot and during the whole day MOSL had net sold about 70,000 shares with negative LTP variation in the following manner:

Table 26

Trade Time	Sell Order Time	Sell Client Name	Traded Price	LTP	% LTP
11:15:50	11:15:42	Goldman Sachs Investment Mauritius	320.00	329.40	-2.85

BSE cash segment

In the BSE cash segment, negative impact of trading by MOSL on the price of the scrip is as follows:

Table 27

Trade No	Trade Time	Sell Order Number	Qty.	Price	LTP	LTP%
1355	10:12:33	10038148	200	376.45	-3.35	**-0.88**
1501	10:14:08	10038150	100	366.00	-2.10	**-0.57**
1508	10:14:08	10038150	200	362.20	-2.80	**-0.77**
1625	10:15:00	10038153	5	338.00	-2.00	**-0.59**

<u>Reliance Industries</u>

NSE F & O segment

In NSE, in Reliance May Futures, the trading by MOSL had the negative impact on the scrip in the following manner:

Table 28

Trade No.	Trade Time	Trade Price	Sell Ord No	LTP	LTP %	Trade Qnty	Buy Order Limit Price	Sell Order Limit Price	Sell Order Orig Vol
29915	10:15:59	408.30	77722	-3.70	-0.90	600	408.3	407.10	1200
29927	10:16:00	407.10	77722	-1.20	-0.29	600	408.25	407.10	1200
			Total	-4.90	-1.19	1200			

BSE cash segment

In the BSE cash segment, MOSL executed orders that negatively impacted the price in comparison to the LTP in the following manner:

Table 29

Trade No	Order No	Traded Qty	Price	LTP	LTP%	Prev price
5467	200010116186	82	401.35	-7.60	-1.86	408.95
5468	200010116186	68	401.35	0.00	0.00	
	Total	150		-7.60	-1.86	
5841	20100014576329	100	385.00	-4.70	-1.21	389.70
	Total	100		-4.70	-1.21	

<u>ONGC</u>

BSE cash segment

In BSE, a sell limit order was placed by MOSL for 5 shares at Rs. 540.1 at 11:19:03. The same got executed at Rs. 542.2 at 11:19:03. This trade brought down the price from Rs. 559.7 to Rs. 542.2 i.e. a fall of 3.13%. Again, MOSL placed sell limit order for 25 shares at Rs. 542.2 at 11:19:10. The same got executed in two trades at Rs. 543 and at Rs. 542.2 at

11:19:10. These trades resulted in fall in the price of the scrip from Rs. 559 to Rs. 542.2 i.e. a fall of 3.01%. The details are as follows:

Table 30

Trade Time	**Traded Price**	**Qnt.**	**Sell Order Time**	**Sell Order No**	**Sell Orig. Vol.**	**Sell limit price**	**Sell Mkt.**	**LTP%**
11:19:03	542.2	5	11:19:03	44620100014576566	5	540.1	L	-3.13
11:19:10	543	16	11:19:10	44607200000060499	25	542.2	L	-2.86
11:19:10	542.2	9	11:19:10	44607200000060499	25	542.2	L	-3.01

It is further noted from the findings of the investigation that In this scrip, MOSL was among the top five members placing sell orders with a concentration of 10.44% (1, 01,138 shares) in gross sales.

Reliance Energy

NSE F & O Segment

In the NSE F & O segment, the trades by MOSL negatively impacted the price as compared to LTP in the following manner:

Table 31

Trade Time	**Trade No**	**Trade Price**	**% LTP**	**Trade Quantit y**	**Sell Order Price**	**Sell Ord Acc No**	**Buy Order Time**	**Sell Order Time**	**Sell Order No**
10:09:39	21029	533.00	**-0.56**	550	533.00	RN022	10:09:39	10:09:35	56293

SBI

BSE cash segment

In the BSE cash segment, the trades by MOSL negatively impacted the price on the LTP in the following manner:

Table 32

Trade No	Time	Price	**% LTP**	Qty	Order no.
244	9:56:34	478	**-0.62**	100	20100004396300
626	9:57:57	457	**-0.65**	5	20100004396500

Submissions of MOSL on the above stated allegations:

19. MOSL made the following submissions with regard to the allegations that

trades by MOSL brought down the price of various scrips, trades by MOSL in certain scrips were significant in comparison to total market turnover and MOSL sold more than its average daily sale in certain scrips on May 17, 2004 as detailed in the preceding paragraphs:

I. MOSL had acted with due skill, care and diligence and had complied with all statutory requirements in terms of clause B (1) of Regulation 7 of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 specifying Code of Conduct for Stock Brokers. As per clause B (1) of Code of Conduct for Stock Brokers, MOSL or any stockbroker is duty bound to faithfully execute the cliental orders for buying or selling of securities at the best available market price and should promptly inform the clients about the status of execution or non execution of an order. As a stock broker, we would have no choice but to carry out the instructions of our clients.

II. The basis on which it is alleged that we have traded heavily in some of the scrips is not clear. MOSL has been fully complying with this Code of Conduct as will be evident from the fact that:

    i. MOSL as an entity and all its group concerns did not do any trading in the 15 specific scrips and Nifty Futures on its own account in both Capital Market as well as F&O Segment.

    ii. Neither did we have any outstanding position, which had to be squared up nor did we create any new position on that day in F&O Segment.

    iii. MOSL group concerns held investments in 6 out of the 15 specific scrips namely Bharti Televentures, BPCL, IOC, SBI, TELCO, TISCO, but not a single share was sold by us on that day or in the week preceding that day.

    iv. In the discretionary PMS accounts managed by MOSL, there was no buying or selling delivery in both the slots and in the third slot our transactions were only for buy orders.

    v. The trading activity of MOSL in the 15 scrips and Nifty Futures on that day was purely for and on behalf of its clients as per their instructions. The big FII trades can be verified from the continuous communications exchanged between our dealers and FIIs through Bloomberg. At no stage, MOSL interfered with the decision making right of a client Selling/buying a stock or influenced their decisions.

III. Comparison with averages is odd. The methodology used by the Investigating Officer (hereinafter referred to as IO) to compare our trading activity in specific scrips on 17th May, 2004, with our average trading activity in those scrips in the preceding period is rather unusual and uncalled for, as every trading day in the market for each scrip is a distinct day. The level of activity in a particular scrip could be because of the scrip specific factors or due to the overall market conditions and on occasions, by both. The volume of transactions for both the time slots executed by MOSL on behalf of its clients in the 15 scrips vis a vis the market volume is given in Table 9 & 9A to the reply, which would substantiate our contention that we did not trade heavily in those scrips impacting their prices.

IV. An analysis of the data given in Table 9 and 9A will reveal the following

   i. Infact, out of the 15 specific scrips, we had net buying in 6 scrips in time slot 1 and 7 scrips in time slot 2 and no turnover in one scrip in slot 2 in capital market segment.

   ii. On May 17, 2004, MOSL volume in the select 15 scrips on behalf of client was infact lower than the overall market share of MOSL on that day. Illustratively, our overall market share in slot 1 in all scrips on that day was 3.02% whereas our share was only 2.72% in the specific 15 scrips. Further, our share in total market selling for all scrips was 1.75% in the 1st time slot whereas it was 1.69% in the specific 15 scrips. In the case of F&O out of the select 15 scrips, in 10 scrips MOSL selling percentage as compared to the market was less than 1 %, 4 scrips it was less than 2 % and only in one scrip out of 15 scrips it was more than 2% at 3.81% of the market. We had no trades in F&O segment in the second time slot.

   iii. It would be observed that in the 1st slot there were only 2 scrips, viz., Bharti Televentures and TATA Motors where MOSL executed trades on behalf of its client, which constituted more than 5% of the total trades of both the exchange for that slot in the capital market segment. Similarly, in the 2nd slot except Bharti Televentures, HPCL and TATA Motors, the transactions in other scrips executed on behalf of our clients did not exceed 5 %. The trades on HPCL and TATA Motors were on account of the large orders in those scrips placed by FII clients before the opening of the markets, which were only partially executed. Here we also would like to bring to your notice that many times the FIIs give the orders at the market price with a rider that we must execute their orders at some fixed percentage of the total market volume. This is the international accepted practice. TELCO order was given by the client with such rider.

iv. Trades executed in Bharti Televentures on that day were totally driven by retail order book and they were executed on behalf of total 230 clients with a total delivery volume of around 55000 shares in the first two time slots. The largest trade by any single retail client was for 7500 shares and that too was a delivery transaction. The offer price was as indicated by the client.

v. Selling in TATA Motors and Bharti Televentures by the clients in the first time slot had a miniscule impact in the SENSEX of 2.54 points and 0.53 points respectively. Similarly selling in HPCL, TATA Motors and Bharti Televentures in the second time slot impacted the Sensex only by 1.40 points. The overall impact of our selling in the 15 specific scrips in time slot 1 and 2 on May 17, 2004 was only 6.93 points. This also substantiates that MOSL did not trade heavily and MOSL sell transactions on that day did not have any significant impact on lowering the price of select scrips.

vi. In the specific 15 scrips only one FII client had a sale transaction in the first 2 time slots.

vii. Although FIIs had placed large selling orders in certain scrips before the market opened, we exercised due care and skill by restraining ourselves in disclosing the full quantity to avoid/prevent sudden price impact due to the size of the orders. Out of the total sell orders worth Rs.67.07 crores, we executed only orders worth RS.6.14 crores (9.17%) in the 1st slot. Similarly in the 2nd slot. the ratio of the executed orders was merely 1.76% of the total sell orders. Thus, not only we acted in the best interests of our customers but also executed the trades with due skill and utmost care in an otherwise panicky market conditions.

viii. From the data of trading activity for the period from April 1, 2004 to May 17, 2004 for these 15 scrips compiled by us, it would be seen that our activity on several other trading days was at a level higher than that of the activity in those scrips on 17th May, 2004 without causing any undue influence on the price movement of those scrips on those days.

ix. As far as Nifty future is concerned we were the net buyer in the 1st two time slots on May 17, 2004 (there being no activity in the 2nd time slot due to deactivation of the terminal.

x. On May 17 2004, a total of 55254 trades for our 5724 clients were executed by qualified and experienced dealers from over 500 terminals located in different parts of the country, strictly as per clients' instructions.

xi. It has been alleged that the number of shares covered by trades, taken by IO in the select scrip, in his view had large scale impact on lowering the price of majority of the select scrips. However if the sum total of the data taken by the IO in SCN is analyzed, it would reveal that the number of shares covered by those trades were miniscule, inconsequential and immaterial, when compared to the number of shares covered by total volume executed in the market as shown in Table 10 of the reply for the select scrips.

xii. At the outset, we would like to submit that the methodology of computing the impact on price fall due to our trade is not clear. In a multitude of trades taking place at that moment in these scrips, the volume of our trades in almost all cases flagged by IO are insignificant. At that very moment or during that minute the price fall in all the scrips was more than the price at which we had executed those trades. The impact attributed to our trades was infact the effect of multitude of trades and certainly cannot be the cause thereof. In this connection please see the scrip wise details of each trade brought out by IO alongwith the total trades in that minute as given in Annexure 8A to 8L to the reply which would make it amply clear that the fall registered in the prices of those scrips was as a result of multiple trades taking place simultaneously at that point of time.

xiii. Nevertheless, we cannot restraint ourselves from pointing out that if 14 shares of Infosys, 30 shares of ONGC, 50 shares of GAIl, 105 shares of SBI, 200 shares of BPCl, 250 shares of Reliance can be said to have impacted our markets, then we are afraid our claim of Indian markets being of global size and standards might be challenged.

xiv. In value terms these trades taken by the 10 amounted to a meager amount of Rs. 47 lakhs vis a vis the total market turnover in those shares of Rs 3189 crores. If such an insignificant amount can have an impact on LTP then our claim of having enough liquidity and depth might come under serious questioning.

xv. As is known, that FIIs normally have a bigger order size and, therefore, it will always reflect into higher market share of the day when they are active. It is also a known fact, that institutional trades do have a bearing on the price of a scrip on any day and it could not have been different on May17, 2004 when there was all time high daily net selling by FIIs. This fact can be verified from the data relating to overall FII inflows as also the impact due to FII trades in individual stocks.

xvi. We did not have any major selling in stocks which carried higher weightage in the Sensex. In any case our selling activity in the 15 specified scrips, at the most, would have impacted the Sensex by only 5.30 points in the 1st time slot and 1.63 points in the 2nd time slot as against the Sensex fall of 330 points and 159 points respectively for the select 15 scrips on that day. The detailed calculation are given at Annexure 6 to the reply.

xvii. On that day, a total of 291 stocks were frozen on the lower circuit although we had no worthwhile trades in those stocks. Further, there were 1364 stocks, which had gone down on that day against 126 stocks going up.

xviii. Selling itself could not have led to any sharp price fall as it could have been due to the withdrawal of buy interest. This phenomenon is always visible when the markets are in bearish mood. This is a typical sign of crowd behaviour which is more a fundamental and a psychological investment behaviour and that was in full operation and was driving the market that day.

xix. It would be crystal clear from the facts and figures analyzed above that transactions executed by us in the select 15 scrips and Nifty futures on behalf of our clients were undertaken with due skill and care and the fall in the market in no way can be ascribed to our trades on that fateful day. We were utmost careful and had acted in a professional manner expected of a broker of our size and stature and were well within the parameters set out in the Code of Conduct for brokers.

FINDINGS IN THE INQUIRY

20. It is noted from the details in the preceding paragraphs as reflected in the submissions of MOSL that it was executing the orders placed by its clients. MOSL has submitted that on May 17 , 2004, a total of 55254 trades for its 5724 clients were executed by qualified and experienced dealers from over 500 terminals located in different parts of the country, strictly as per clients' instructions.

21. It is further submitted that MOSL as an entity and all its group concerns did not do any trading in the 15 specific scrips and Nifty Futures on its own account in both Capital Market as well as F&O Segment. Further, it did not have any outstanding position, which had to be squared up and it did not create any new position on that day in F&O Segment. MOSL group concerns held investments in 6 out of the 15 specific scrips namely Bharti Televentures, BPCL, IOC, SBI, TELCO, TISCO, but not a single share was sold by them on that day or in the week preceding that day. Further, in the discretionary PMS accounts managed by MOSL, there was no buying or selling delivery in both the slots and in the third slot its transactions were only for buy orders.

22. It is noted from table 1 that percentage of retail clients on May 17, 2004 in comparison to other days decreased from 70.41% to 46.11%. It is further noted that percentage of FII increased from 18.07% to 41.22%. This indicates that FII client of MOSL were more active on May 17, 2004 than other categories.

23. MOSL has admitted that FII had placed large selling orders. However, it has provided certain measures taken by it in the interest of market. For example, it is stated that although FIIs had placed large selling orders in certain scrips before the market opened, MOSL exercised due care and skill by restraining itself in disclosing the full quantity to avoid/prevent sudden price impact due to the size of the orders. Out of the total sell orders worth RS.67.07 crores, MOSL executed only orders worth RS.6.14 crores (9.17%) in the 1st slot. Similarly in the 2nd slot, the ratio of the executed orders was merely 1.76% of the total sell orders. On the basis of the same MOSL has submitted that it not only acted in the best interests of its customers but also executed the trades with due skill and utmost care in an otherwise panicky market conditions.

24. In view of the same, it can not be conclusively held that MOSL executed the said trades with malafide intent to bring down the market. As seen from the details stated above, the trades were executed by MOSL in the capacity of a stock broker for its clients. Further, no connection is seen between the broker and the clients. Further, as the clients are institutional investors, there is no reason to believe that they did not have capacity and resources to take investment decisions independently. It is the duty of the Stock Broker to execute the orders placed by the clients. It is seen that MOSL had only carried out the instructions of the clients. It is pertinent to note that no client defaults had taken place and it is not the case that the broker defaulted in honouring any of its commitment.

25. With regard to the market fall on account of large number of sale orders placed by the FIIs, it is pertinent to note from the reply of MOSL that though the FIIs had placed large selling orders in certain scrips before the market opened, MOSL exercised due skill and care by restraining themselves in full quantity to avoid sudden price impact due to the size of the orders. In this regard, MOSL submitted that out of the total sell orders, it executed only part of the orders in the first time slot. MOSL submitted that the above actions indicate that they executed the trades with due skill and utmost care in an otherwise panicky market conditions. Considering the said submissions, it is seen that MOSL exercised caution while executing the orders.

26. Further, it is pertinent to note from the reply of MOSL that in the case of NIFTY futures, they were the net buyer in the first two time slots on May 17, 2004. This further indicates that the actions of MOSL were not deliberate to bring the market down as alleged in the show cause notice. As it is seen that the noticee executed reasonable care in executing the sale order of its clients as detailed above. In view of the same, it can not be held that MOSL violated the provisions of Regulation 2(c)(5) read with Regulation 4(1) and 4(2) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003.

27. The second issue for consideration is whether MOSL acted in a reckless and irresponsible manner in executing the orders of the clients as well as in advising the clients on market situation. This is based on the following allegations:

I. Margin Calls by MOSL resulted in squaring off of positions by the clients which resulted in further aggravating the fall in the market.

II. MOSL made representation in a reckless and careless manner to the clients and gave negative outlook about the political situation and the market on May 17, 2004 as observed from

i. Telephonic conversation from the dealing room

ii. Daily buy / sell recommendation to its clients / research reports etc

iii. Briefing to the clients by the relationship managers

iv. Bloomberg mail.

Allegation: Margin Calls by MOSL resulted in squaring off of positions by the clients which resulted in further aggravating the fall in the market

28. It is noted from the statement of MOSL dated September 23, 2003 that due to the fall in the SENSEX on May 14, 2004 and May 17, 2004, the mark to market positions were down and margin calls were given to clients asking for additional margins. It is alleged that there have been large scale squaring off of clients' positions due to additional margin calls by MOSL resulting in further aggravating the fall in the market.

29. This is also corroborated by the statement of Shri Ashok Ruia, non-institutional client of MOSL, wherein he stated that they were warned by the broker about their margin calls and mark to market losses and in view of the mounting margin requirements and mark to market losses they did not think it prudent to continue with their big positions.

Submissions of MOSL

30. MOSL has made the following submissions with regard to the allegation as stated above

I. We are unable to understand the import of the above observations of the learned IO. It cannot be that in a falling market, a broker should refrain from making margin calls, ignoring the prescribed rules and keeping aside all prudential norms and risk containment measures adversely affecting the integrity of the market. A broker is required to collect minimum prescribed margins from its clients as per the guidelines and circulars issued by the Exchanges and SEBI, from time to time and any noncompliance in that regard on the part of broker could invite penalties. For this purpose brokers are required to daily upload a statement to exchanges for all margins collected on behalf of clients' position in F&O Segment and submit a quarterly statement for the trades in the Capital Market Segment.

II. The margin calls made by MOSL on May 14, 2004 and May 17, 2004 was in tune with the stated guidelines and regulations prescribed in this regard. Whatever selling was done by our clients on May 17, 2004, it was as per their specific instructions and in no way we attempted to force any of our clients to liquidate their positions, as alleged. Here it is pertinent to note that the margin calls given during the normal course of business could have never impacted the market in Slot 1 and 2 since they were given after the trading was suspended. Further, in the 2nd time slot our F&O were deactivated by NSE due to margin shortage and, therefore, there was no question of any trades being executed during the second time slot by us but still the market continued to register further fall.

III. We therefore do not understand in what way we went wrong in asking for margins to the clients which were as per the stipulations of the exchanges and which had to be made in the situation of NSE deactivating our terminals for shortfall in the client margins payable to the exchange. That was despite the fact that we had deposited with NSE the margin money to the extent possible. One can argue that such act of exchanges during crisis period sends panic signals among the investors and affect the market adversely. Still, exchanges have to do their duty.

IV. We are surprised to note that IO has quoted statement by one of our clients, Mr. Ashok Ruia, complaining against our making margin call. The purport of the statement is not clear to us. We would, however, like to bring to your kind attention the fact that we did not, in any way, influence his decision to continue his positions or not. Contrary to his claim, on May 17,2004, Mr. Ruia had infact increased his total outstanding position in the market by Rs. 67 lakhs over the previous day's position, which resulted into higher margin liability due from him. Due to the transactions on 17 May 2004, his overall margin liability also went up by RS.1.12 crores.

ANALYSIS OF TELEPHONIC CONVERSATION FROM THE DEALING ROOM:

31. During the course of investigation, MOSL was advised to provide written transcripts of the telephonic conversations in the dealing room on May 17, 2004, which was submitted by MOSL vide letters dated September 21, 22 and 24, 2004. These conversations were mostly between FII clients and dealing room personnel of MOSL and also between the dealing room personnel inter-se.

32. It is noted from the conversation between Jayesh (VP Sales Institution) &

Navin (Head of Institution), at 10.15 AM that MOSL's personnel were feeling that the market will fall because of Asian Markets and because of the uncertainty regarding political situation. It is alleged that the conversations between MOSL's senior dealing room functionaries in charge of advising the FII and other clients in the early hours of trade on May 17, 2004 appear to be portraying a negative and gloomy picture of the political configuration and market situation which would have resulted in creating a panic situation among the FII and other clients.

33. It is further noted that at 10.41 AM, a call was received from client Mr. Raut. to Mr. Pervaez/Mr. Amish. Client asked view on the market. It was replied that the international market is down and there is lack of clarity with regard to government and FII's are also not active.

34. From the above, it is alleged that the conversation between the senior dealing room functionaries of MOSL and institutional (including FII) clients during the crucial hours of trades on May 17, 2004 was indicative of a completely negative view about the political situation of the country following the general election and disappointing and gloomy representation of the market situation. From the above, it is alleged that MOSL made representation in a reckless and careless manner which was clearly beyond the scope of 'general comments made in good faith with regard to the economic policy of the government, the economic situation of the country, trends in the securities market or anything of a like nature'.

35. It is alleged from the findings of investigation that following such advice and margin calls by MOSL as stated above, there was large scale offloading of shares on May 17, 2004, mainly by FIIs. This is also borne out by the table no.1 above, as per which the trades by FIIs constituted 41.22 % of MOSL's turnover on May 17, 2004 as compared to 18.07% during the period April, 2004 to August, 2004.

Submissions of MOSL

36. In respect of the allegations, MOSL has submitted the following:

    I. It is strange to note that the IO has chosen to compare our FII trades on a single day on 17th May, 2004, with the average FII trades executed through us over a period of time. It is not only unusual and incomparable but is also uncalled for, as you will agree, that every trading day in the market for each scrip is a distinct day. Further, he has completely ignored the total FII share on that day to the total market, which was 40.50 % as compared to other normal days' share ranging between 14% to 36.7%. Again we would like to bring to your notice that in our case the higher FII percentage was not due to only high FII turnover but also due to the lower participation from the retail segment because of higher volatility. It would therefore be unfair to draw an adverse inference merely from the level of our trading activity on May17, 2004 at 41.22% in FII turnover by comparing it with the 5 months' average.

II. Whatever FII selling took place on that day, was not due to our giving any selling advice but was in continuation of the FII activity for last several days in the month of May for reasons recounted earlier. At our end also, most of the big sell orders were placed by FIIs on their own and were executed as per their instructions albeit partially. Also, the FII volume of 72 crores through us on that day had to be reckoned in the context of overall spurt in FII volume to total turnover, as stated above.

III. For the various international and domestic factors as brought out above, on May 17, 2004 the markets also witnessed lack of buying orders from domestic investors and that too contributed to the proportionate volume of FII trades being significantly higher on that day, in the overall market and MOSL share would be no different.

IV. Our market share in the total market turnover on May17, 2004 was 2.87%, which was well within our average share of around 3% as brought out in Annexure 5 to the reply. Our share of FII turnover to the total market FII turnover at 2.92% on May17, 2004 was also normal. It was much lower than our market share in FII selling which, at times, had exceeded 15% and, therefore, there was nothing unusual in the level of our FII activity in the market on 17th May, 2004.The details are provided in Annexure 9 to the reply.

V. As far as MOSL is concerned, its activity in the Institutional Segment on May17, 2004 was not confined to selling alone as is being made out. Our records show that in the 1st time slot, the Institutions bought shares worth Rs.5.30 crores as against their sale of Rs.7.25 crores. In the 2nd slot the position was reversed with buying at Rs. 3.20 crores far exceeded the selling of RS.1.20 crores. The cumulative effect of trades in both the slots was that institutions were net buyer through us in the first two slots. It is, therefore, not correct to say that because of any advice, FIIs pushed sell orders and there was large scale offloading of shares. The facts presented above are self explanatory.

Recorded Conversations - No indication of selling advice

VI. On May 17, 2004 or in the week preceding thereto, we did not make any comments, leave alone give any advice to FIIs or any other clients advising them to sell any stock. It is, therefore, not correct to assume that following our advice there was large scale offloading mainly by FIIs. The IO has relied mainly on 4 sets of conversations viz between a) VP Sales (Institution) and Head of Institution at 10.15 am, b) A client, Mr. Raut and our Mr. Parvez and Amish at 10.41 am, c) A FII client, Mr. Scott and our Mr. Chirag at 11.38 am and d) Our Mr. Pankaj and a client Mr. Vikas at 11.49 am. In our view the aforesaid conversations was general in nature and could not have cast any impact on the course of the market as will be seen from the following:

i. All the 4 sets of conversation have taken place, after 10.15 am out of which 2 were after the trading in the market was suspended in the 1st time slot and the other 2 were after the closure of the 2nd time slot and, therefore, could not have influenced the course of the market even if it is presumed (but not admitted) that the aforesaid conversations led to heavy offloading mainly by FIIs.

ii. From the recorded conversations reproduced by IO, it would be noted that a major part of the conversation was general in nature and our Sales team did not discuss any individual stocks.

iii. The conversation cited by the IO between 2 of our executives is not only a solitary instance but also took place during a surcharged atmosphere. In any case, exchange of personal views or chat between two dealers of our office can in no way be considered as communication of MOSL views to its clients. Most of their comments had already been reflected in the media reports and was available to everyone including our clients even before the markets opened.

iv. A careful study of the conversation between our V.P. Sales Institution - Mr.Chirag and one Mr.Scott would show that Mr.Chirag was merely conveying to Mr.Scott about the actual state of the market at that moment and that too was at 11.38 am when the market was closed after the 2nd time slot. It is pertinent to note that the client had already given sell order before the market opened. During his conversation with Mr. Scott at 2.07 pm, the tone of Chirag's conversation was to dissuade Mr. Scott from selling when he asked him whether he still wanted to participate in the market. It was Mr. Scott who said that he would still like to go ahead.

v. The conversation cited is only with one FII client and two local clients while we had executed trades for several clients. In any case, conversation with a single FII cannot be construed as advice to FIIs at large.

vi. During that stressful period the dealers had to exchange views with the callers and besides repeating the comments and observations taking place in the media, our dealers also made several statements which if analyzed, would reveal that they were very positive and bullish in nature. The learned IO has completely ignored this aspect of the conversations. Pieces of some such conversations as compiled by us are given in Annexure 10 to the reply.

vii. More importantly, most of the selling orders from FIIs were received much before the conversations referred to by the IO. As a matter of record, FIIs were continuous sellers in the previous week, as could be verified from the SEBI published FIIs data which is reproduced for ready reference vide Annexure 11 to the reply.

viii. FIIs were also sellers in some of the stocks where we had buy recommendations. If SEBI is of the opinion that FIIs had pushed the prices down intentionally, then they should seek clarification from them directly.

ix. The contents of most of the conversations about the gloomy picture and the political climate, FIIs not being active, sell pressure by sales of banks for positions held by retail clients on account of margin requirement, panic among the fund managers, left not being ambitious and market friendly, uncertainty regarding Shri Manmohan Singh not being named as PM, problems regarding Common Minimum Programme, negative remarks about the market, forecast regarding disinvestment programme being put on the backburner, was nothing but a repetition or reproduction of similar conversation already taking place in an elaborate manner in the electronic and print media and was also available on many websites. Excerpts of some such conversation reported in the media are reproduced alongwith the clippings vide Annexure 3.1 to 3.24 of the reply.

x. The conversation which has been cited by the IO as negative was merely communication of facts about the preceding week's events i.e. fall in the Indian market, the fall in international markets and the scenario of the Indian market on the back drop of the election results and the information which was freely flowing in the print and electronic media and in no way it could be termed as our creation, as alleged. It would be noted that the views in the print and electronic media by distinguished personalities and panelists, which were far sharper and were available to all and sundry. Excerpts of some such reports/remarks are enclosed as Annexure 12 to the reply.

xi. FIIs have their own fund managers and dealers who take independent decisions, after factoring views from multiple sources. It is a matter of record, as mentioned above, that most of the 'sell' orders that were placed with us that day were well before the opening of the market in the context that the FIIs were also sellers in the other emerging markets which had already opened at much lower levels. Out of the total sell orders worth RS.67.07 crores, we executed only orders worth RS.6.14 crores (9.17%) in the 1st slot. Similarly in the 2nd slot, the ratio of the executed orders was merely 1.76% of the total sell orders. Therefore, the question of conversations between Chirag and Scott influencing FII decision, even presuming that they did not have their own views, did not arise.

xii. There is nothing in our dealers' conversation that could be considered as inducement to sell by anyone or selling advice and certainly not derogatory to anyone. In fact, many other persons have made much derogatory and damaging remark about the stock markets during that period and even subsequent to that as brought in Annexure 3.1 to 3.24 to the reply and made in full view of all the investors.

xiii. During that crucial period, we had only been conveying positive buy recommendations and the positive aspects of the market to our clients as revealed from the following analysis of our daily retail recommendations made in Market Diary from 11 - 17 May 2004. The Table 11 of the reply contains excerpts of views of our research team on certain days alongwith the market behaviors on that day and/or the next day. It is pertinent to note that on all 5 days, our recommendations were bullish with ZERO sell calls against buy calls ranging from 7 to 31 but the markets behaved indifferently.

xiv. As a matter of policy, MOSL research team makes fundamental recommendations to clients only after deep analysis, both micro and macro, based on the available facts and business environment prevailing at the time of making such recommendations. Nevertheless, the market generally behaves as per its own momentum that at times might go contrary to the research team's projections and recommendations as brought out in table 11 to the reply. It would, therefore, be presumptuous to assume that MOSL would be in a position to influence the overall market behaviour through its advice and recommendations.

xv. MOSL is proud of its track record of presenting positive outlook about the Indian Stock Market to its clients including the FIIs and other institutional clients. MOSL has always been referred to as "Bulls" in the stock market and has even been termed as a bull house 24'X 7' and rightly so because almost all of its recommendations have been for "buy". This will be evident from the summary total recommendations made during the period April 2004 to December 2004 in Table no.12 of the reply.

xvi. A careful analysis of the data given in the above table would reveal that during any given period, our sell recommendations did not go beyond 3% of the total number of recommendations. In fact, during the period April 2004 to June 2004, out of the 80 recommendations, there was an only one sell recommendation, which aptly brings out our deep passion for and focus on Indian equity and Indian markets. In this context copy of our newsletter for-each of the month from January to December 2004 including the May 2004 newsletter published just before 17th May 2004 is enclosed to the reply, in which we had, as always, portrayed bullish picture about the Indian market.

xvii. Not only our research reports but the comments emanating from our top executives even at the level of Chairman, Shri Motilal Oswal have always been bullish. In this connection we would like to draw your kind attention to the statement made by Shri Oswal and reproduced in Divya Bhaskar, in their Surat edition dated April 27, 2004, immediately after the holding of the elections where he has been quoted as saying "Sensex may touch 8000 within a year." He was not wide of the remarks, we are already at the level of 6700 in the month of February 2005. Excerpts of comments made publicly by our directors making positive statements about the market during pre and post election period are enclosed in Annexure 14 to the reply.

xviii. Strangely, IO has covered only 1 email of Bloomberg and that too selectively omitting the crucial portion of the message which states that **“though downside from current levels will be limited and market will consolidate at 4900 levels on the back of expectation of normal monsoon. PNB result was better than expected and Net NPA of 1% is a positive surprise. Stock will see some bargain buying. HPCL is expected to trade around previous close of Rs 330. No major downside at this point in time".** Such an optimistic statement in the midst of negative atmosphere cannot in any way be construed as MOSL making negative comment about the market. Further the IO has also not taken cognizance of 9 other positive Bloomberg mails which is enclosed as Annexure 15 to the reply.

xix. In the aftermath of general election results many prominent brokerage houses had made comments, which were very strong and sharp as against the balanced comments made by us from time to time as we have always been modest and responsible in approach. We have compiled comments by some brokerage house during that period, excerpts of which are reproduced in Annexure 16 to the reply.

xx. IOs observation that our daily report of May 17, 2004 published in the evening of May14, 2004 did not contain any "buy" recommendation is not reflecting the complete picture. Although, we might not have given any new buy recommendation on that date due to the prevailing uncertainty in the market, we still continued our earlier "7 buy" calls as can been seen from our Market Diary for May 17, 2004 (Annexure 17 to the reply).

xxi. In Para 7.1 of page 33 of SCN, the learned IO has quoted many of our remarks from our May 17, 2004 Most daily report which gives synopsis of the previous days happening and that cannot be construed as recommendation for next day. However, the daily report ends with cautious optimism when it states that: "Markets appear to be in the process of forming a temporary bottom. However, we do not expect major buying till the arrival of monsoons and the announcement of the common program and key ministerial portfolios by the new Government." This is definitely a cautious outlook but in no way depicts a negative or bearish view about the political situation and the market, as alleged.

xxii. If we had bearish outlook of the market, then we would have sold our own holdings or could have created short positions in the derivative market, which was not at all the case as can be verified. We would like to reiterate that the group company was holding 6 stocks out of total 15 specific stocks in their portfolio on which no trades were executed on that day or the preceding weeks.

xxiii. We therefore strongly deny that comments made during the inter dealer conversation and/or with the FII representative were not made in good faith in regard to -(a) the economic policy of the government, (b) the economic situation of the country, (c) trends in securities market and(d) any other matter of a like nature. We maintain and reiterate that all our communications, whether verbal or written, whether sent before May17, 2004 or thereafter, were well within the ambit of regulation 2(c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 which categorically permits such comments.

xxiv. We reiterate that whatever conversation took place between the dealers in their private capacity or private domain or with a FII fund manager was well within the permissible parameters.

ANALYSIS OF DAILY BUY / SELL RECOMMENDATION TO ALL CLIENTS / RESEARCH REPORTS ETC.

37. In the course of the investigation, it was found that MOSL give daily market recommendations / tips to its clients in the form of its publication, “MOSt Daily”, published in the evening of every day which is sent by e-mail to all its clients. It contains buy / sell / stop – loss recommendations regarding specific scrips at specific prices.

38. It is noted from the findings of investigation that in the MOSt Daily for May 14, 2004 published in the evening of May 13, 2004, MOSL had given a buy recommendation. But, in the MOSt Daily for May 17, 2004 published in the evening of May 14, 2004, there was no recommendation regarding buy / sell. It is alleged that the report by MOSL (MOSt Daily) revealed negative outlook about the political situation and the market.

ANALYSIS OF BRIEFING TO THE CLIENTS BY THE RELATIONSHIP MANAGERS

39. It is noted from the findings of investigation that relationship managers of MOSL telephonically brief the clients every morning about the market outlook and general recommendation for buy / sell of specific scrips. MOSL also send SMS to all its clients at a time through internet during the day giving advice regarding buy / sell / stop – loss relating to particular scrips. It is further noted that MOSL admitted in the statement recorded under section 11C(5) that the above SMS is a one – way communication between MOSL and its clients. MOSL admitted that it had not sent any SMS on May 17, 2004 giving its recommendations.

ANALYSIS OF BLOOMBERG MAIL OF MOSL

40. It is noted from the findings of investigation that MOSL communicate with its FII clients through Bloomberg. MOSL get orders from the FII clients through Bloomberg.

41. It is alleged that in the mail written to Scott (Goldman Sachs), MOSL had commented negatively about the opening of market. The mail read as follows:

> "Market expected to open negative post Fridays fall and taking its view from global market movement. Overall withdrawal of buying will keep pressure on market. Formation of new govt. will be on May 19 and till announcement of policy from them market will trade cautiously."

Submissions of MOSL on Allegation that MOSL gave negative outlook about the political situation and the market during briefing to the clients by the relationship managers and Bloomberg Mail

42. MOSL has submitted the following on the above allegation:

    I. MOSL publishes both long term and short term trading investment recommendations. The recommendations are made for different profile of clients namely Investors and Traders. The long term investment ideas are emailed as well as couriered to the clients who have requested for the same. The Market Diary - MOSt is a daily publication and is based on technical charts and market sentiments, which is emailed every evening to select trading clients who have requested for the same. The Market Diary gives synopsis of the Sensex movements during the day alongwith market forecast and recommendations for buy/sell/stop-loss of specific scrips at various prices. Sometimes, we also brief our clients telephonically or through SMS about the market outlook.

II. Our mail/communication to our clients is made in line with the current market practice followed by both multinational and large Indian Brokerage Houses as could be verified by SEBI from the enclosed sample reports collected by us as Annexure 19 to the reply. We have not done anything, which is unusual in the market and against the spirit of any regulation. We reiterate that the communication is sent only to those clients who have furnished to us their email ids or mobile numbers indicating their request for the same, knowing fully well the implications thereof. Moreover, all our communications and research reports contains a declaration about the proprietary position if any of the directors and the group concerns to ensure regulatory compliance and to maintain transparency norms by stating that "MOSt and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report. We also clearly give the disclaimer as under:

> "This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. MOSL is not soliciting any action based on it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any person in any form. The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOSt or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOSt or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations. "

Disclosure of Interest

III. Besides the declaration and disclaimer as above, we also give disclosure of interest in the following format in our individual scrip research report.

i. Analyst ownership of the stock Yes/No

ii. Group/Directors ownership of the stock Yes/ No

iii. Broking relationship with company covered Yes/No

"MOSt is not engaged in providing investment-banking services. This information is subject to change without any prior notice. MOSt reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOSt is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries. This should, however, not be treated as endorsement of the views expressed in the report."

FINDINGS

43. It is noted from the details in the preceding paragraphs that MOSL has submitted that in a falling market also a broker is required to collect minimum prescribed margins from its clients as per the guidelines and circulars issued by the Exchanges and SEBI, from time to time and any noncompliance in that regard on the part of broker could invite penalties. The margin calls made by MOSL on May 14, 2004 and May 17, 2004 was in tune with the stated guidelines and regulations prescribed in this regard. Collection of margins by the broker should be seen as a risk containment measure rather than as an act designed to bring the market down.

44. MOSL has further submitted that the conversation which has been cited by the IO as negative was merely communication of facts about the preceding week's events i.e. fall in the Indian market, the fall in international markets and the scenario of the Indian market on the back drop of the election results and the information which was freely flowing in the print and electronic media and in no way it could be termed as creation of MOSL, as alleged in the show cause notice. In this regard, it is seen that the views in the print and electronic media by distinguished personalities and panelists were far sharper and were available to all. Excerpts of some such reports/remarks have been enclosed as Annexure 12 to the reply of MOSL.

45. It is submitted by MOSL that during that stressful period the dealers had to exchange views with the callers and besides repeating the comments and observations taking place in the media, its dealers also made several statements which if analyzed, would reveal that they were very positive

and bullish in nature. MOSL has submitted that this aspect of the conversations has been completely ignored. Pieces of some such conversations have been given in Annexure 10 to the reply of MOSL. On analysis of such transcripts, it is seen that there has been nothing unusual in the views of MOSL. The prevailing uncertainty in the market have to be taken into consideration while analyzing the situation.

46. It is further submitted by MOSL that the observation that daily report of May 17, 2004 published in the evening of May14, 2004 did not contain any "buy" recommendation is not reflecting the complete picture. Although, MOSL might not have given any new buy recommendation on that date due to the prevailing uncertainty in the market, it still continued its earlier "7 buy" calls as can been seen from its Market Diary for May 17, 2004 which has been enclosed as Annexure 17 to the reply of MOSL. The evidence in this regard indicates that MOSL did give some buy calls in the market diary for May 17, 2004. In view of the same, the said charge against MOSL can not be sustained.

47. With regard to emails and communications, it is submitted by MOSL that mail/communication to its clients is made in line with the current market practice followed by both multinational and large Indian Brokerage Houses. The communication is sent only to those clients who have furnished to it their email ids or mobile numbers indicating their request for the same, knowing fully well the implications thereof. Moreover, all its communications and research reports contain a declaration about the proprietary position if any of the directors and the group concerns to ensure regulatory compliance and to maintain transparency.

48. It is noted that MOSL has not denied certain comments made by it, however, it has contended that it is provided to selected clients only who request for such service by MOSL and also it is in compliance with the industry norms. On perusal of the communications though it can not be held that the same affected the overall market, as the communiqué were not addressed to the general public, it is felt that MOSL needs to be more careful in giving such reports and recommendations as it can have effect on market sentiment. In this adjudication proceedings, no adverse finding is recorded against MOSL as the communications were not addressed to general public.

INSPECTION:

49. A limited inspection of MOSL was carried out at its office at 81/82, Bajaj Bhavan, 8th Floor, Nariman Point, Mumbai, on September 03, 2004 by officials of SEBI.

50. The third issue for consideration is pertaining to violations alleged to have been committed by MOSL as alleged on the basis of the inspection carried out on September 03, 2004 by officials of SEBI. The following allegations are made from the findings of the said inspection:

I. No order time on contract notes

II. KYC forms were not completely filled

III. Allowed exposure to the client not commensurate to his income

IV. Not informing Pro – Account trading to the clients

Allegation: No order time on contract notes

51. It is alleged from the findings of inspection that contract notes issued by MOSL in respect of the trades on BSE do not carry order time. It was further noted from the findings of inspection that the clients of MOSL maintain running accounts with it and there is no separate account for clients for BSE and NSE.

Submissions of MOSL

52. MOSL has submitted the following on the above allegation:

The format of our contract notes is in line with the format prescribed by the BSE & NSE. Currently, the stock exchange format does not require the broker to show the order time in the contract note in the capital market segment. It only requires mentioning the trade time which is duly indicated by us. We enclose a copy of the format as specified by the respective exchanges as Annexure 21 to the reply.

<u>FINDINGS</u>

53. MOSL has submitted that the format of its contract notes is in line with the format prescribed by the BSE & NSE. It is contended by MOSL that the stock exchange format does not require the broker to show the order time in the contract note in the capital market segment. It only requires mentioning the trade time which is duly indicated by MOSL. A copy of the format as specified by the respective exchanges is enclosed as Annexure 21 to the reply of MOSL. However, it is noted from circular

SMD/POLICY/IECG/1-97 dated February 11, 1997 which provides as follows:

Time Stamping of orders

The broker member should maintain record of time when the client has placed the order and reflect the same in contract note alongwith the time of execution of the order

In view of the same, it is concluded that MOSL filed to comply with SEBI circular SMD/POLICY/IECG/1-97 dated February 11, 1997.

Allegation: KYC forms were not completely filled

54. It is further alleged from the findings of inspection that the KYC forms were not completely filled up by MOSL.

Submissions of MOSL

55. MOSL has submitted the following on the above allegation:

> MOSL has been having a very good compliance history and track record throughout its existence. We have a Chartered Accountant with more than 10 years experience heading our compliance team to ensure all compliances including proper scrutiny of the KYC forms. We are not in a position to comment on any specific case or specific aspect since the details are not available in the notice. Since, on an average, daily 150 to 200 accounts are opened with us, it might have so happened that in some stray cases minor information might have remained to be filled in and might have escaped the attention of the Compliance officer. However, we make sure that all the important documents and information are collected. We would like to submit that a stray case should have nothing to do with the present context of the investigation.

<u>FINDINGS</u>

56. It is submitted by MOSL that it is not in a position to comment on any specific case or specific aspect related to incomplete KYC form as the details are not available in the notice. In view of the same, no adverse finding is recorded against MOSL.

Allegation: Allowed exposure to the client not commensurate to his income

57. During inspection of MOSL, the KYC form of Shri Devendra Kumar Gangwal of Gauhati was examined, it was found that the client was registered in January, 2004 and he had declared an annual income of Rs. 1.56 lacs only, whereas his trading turnover on May 17, 2004 alone was Rs. 4 crore.

Submissions of MOSL

58. MOSL has submitted the following on the above allegation:

I. The information regarding Income Tax Return of the clients is obtained in terms of the recommendary guidelines issued in this regard by SEBI vide their letter no SMD1/23341 dated November 18, 1993. We are not aware of any specific guideline or circular enjoining the brokers to assess the financial position of the clients on the basis of income tax return. All that a broker can and should ensure is that the client is properly introduced, furnishes all the required information/documents and maintains sufficient margin money at any given point of time, and delivers the shares and or makes payment on time.

II. Our registered sub broker in Guwahati, M/S Agarwalla Capital who has more than 10 years of experience in the stock market and who is also a member of the Guwahati Stock Exchange had introduced Shri Gangwal to us. Shri Gangwal has been doing business with us from January 2004 and his track record has so far been found to be good. He has been a regular trader with a daily volume of RS.3 - 4 crores spread over the day but his exposure at any given point of time during the day had never been allowed to go beyond Rs. 30 lakhs, based on his margins available with us and prudential risk management norms. He had sufficient margin of around 15 lakhs on May17, 2004 lying with us in the form of securities. A statement showing his securities position and balance sheet is attached as Annexure 20 to the reply. It is worth mentioning that Shri Gangwal had bought stocks worth RS.31 lakhs in the 1st time slot which would have helped the market positively but this significant contribution of Shri Gangwal has been completely ignored by the IO and instead an irrelevant issue has been raised which in any case is not relevant in the present investigation.

<u>FINDINGS:</u>

59. With regard to allowing exposure to the client not commensurate to his income, MOSL has submitted that it is not aware of any specific guideline

or circular enjoining the brokers to assess the financial position of the clients on the basis of income tax return. However, the broker should be more careful in such situations when a client who is stated to have annual income of Rs.1.56 lakh took a position of Rs. 4 crore. As it is noted from the reply of MOSL that it has collected requisite margin from Shri Gangwal and exposure from him was allowed on the basis of the same, considering the said submissions no adverse finding is recorded against MOSL.

Allegation: Not informing Pro – Account trading to the clients

60. It is alleged that MOSL do not inform pro account trading to its clients.

Submissions of MOSL

61. MOSL has submitted the following on the above allegation:

I. This requirement was introduced in Nov 2003 and on receipt of the circular, we had sent necessary communication to all our clients. We have also printed the same on the contract note itself for easy and regular notice of the client. Over and above, we have also incorporated it in the format of Member - Client Agreement. The same is repeated in all our research reports sent to clients which carry the following declaration "MOSt and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report." We have made this as a part of the KYC exercise.

II. We would submit that this technical aberration has nothing to do with the context in which the investigation is being carried out.

<u>FINDINGS</u>

62. On the allegation of not informing Pro – Account trading to the clients, it is submitted that this requirement was introduced in Nov 2003 and on receipt of the circular, MOSL had sent necessary communication to all its clients. MOSL has also printed the same on the contract note itself for easy and regular notice of the client and also incorporated it in the format of Member - Client Agreement. The same is repeated in all its research reports sent to clients which carry the following declaration "MOSL and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report." MOSL has made this as a part of the KYC exercise. In view of the same, no violation by MOSL is noted in this regard.

CONCLUSION:

63. In view of the details stated in the preceding paragraphs, it is concluded that MOSL should have been more careful in providing reports and recommendations to the clients as it can have effect on market sentiment. However, as regards the trades executed by MOSL, no adverse finding is recorded in this enquiry. With regard to the allegation of not mentioning the order time, it is noted that the contract note does not show the order time, however it mentioned the trade time. Considering the fact that only said instance of such irregularity was observed and also considering the submission of MOSL that it has been following the format prescribed by the Stock Exchange, no penalty is imposed on Stock Broker Motilal Oswal Securities Ltd. in the present adjudication proceedings. The present adjudication proceedings are disposed of.

Place: Mumbai **Biju. S**

March 28, 2008 **Adjudicating Officer**