

**WTM/MSS/MIRSD-2/30/09**  
**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA**  
**CORAM: M.S. SAHOO, WHOLE TIME MEMBER**

**IN THE MATTER OF ILLEGAL TRADING - DEALINGS BY SHRI BHADRESH SANGHVI, SUB-BROKER AFFILIATED TO M/S. ANAND RATHI SHARE & STOCK BROKERS LIMITED**

**ORDER**

**UNDER SECTION 11(4) READ WITH SECTION 11B OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AND REGULATION 35 OF SEBI (INTERMEDIARIES) REGULATIONS, 2008**

1. Shri Bhadresh Sanghvi (PAN No.: AXDPS8704K) having office at 4, Ankruti Apartments, Swastik Society, Navrangpura, Ahmedabad – 380009, Gujarat is registered with SEBI as a sub-broker with SEBI Registration No. INS235801011 and trade name ‘Arihant Investment’, affiliated to M/s. Anand Rathi Share & Stock Brokers Limited, broker of National Stock Exchange of India Limited (NSE).
2. SEBI received a complaint on Sep 29, 2009 alleging that the sub-broker (Shri Bhadresh Sanghvi) was indulging in illegal trading. It forwarded the complaint to NSE and Bombay Stock Exchange Limited (BSE) vide letter dated October 8, 2009 seeking a report in the matter. NSE and BSE conducted a special purpose joint inspection on October 20, 2009 at Arihant Investment, Iswar Bhuvan, Nana Ni Bhagol, Chipwas, Sanand, Ahmedabad-382110, and furnished their respective reports to SEBI vide letters dated December 03, 2009 and November 30, 2009, respectively.
3. The inspection revealed the following irregularities:
  - (a) The sub-broker displayed extreme non-operation and disrespect to the inspection team. It even physically intimidated the team. It snatched away the papers containing incriminating data forcibly from inspecting officials and tore them. It blatantly refused to sign and acknowledge the documents seized by the team. The team was not allowed to scrutinise the computers and relevant papers. The people who operated terminals refused to identify themselves.
  - (b) The kacha records contained the details of trades, most of which were executed outside the stock exchanges. There was a separate sheet which recorded

transactions executed outside the trading system. Some trades, which were executed in the name of one person at the Exchange, were recorded in the name of another person in the Kacha papers.

- (c) Contract notes were issued to the clients in a format different from that prescribed by the exchanges and further, the contract notes so issued did not carry the signature of trading member / authorized signatory.
- (d) The office did not display SEBI registration certificate of the broker or the sub-broker. It rather displayed a sign board as “Arihant Investment – Member of BSE & NSE”, while it was not a Member of BSE or NSE. This location of the sub-broker was not notified to the Exchange.
- (e) Mr. Bhadresh Sanghvi, who was operating IML Terminal, did not have the required Certification.
- (f) Despite being a registered sub broker of NSE, Mr. Bhadresh Sanghvi dealt with another broker (Nirmal Bang Securities Ltd.) for his own trades without prior permission of the exchange.

Based on the above findings, the joint inspection prima facie revealed that the sub-broker engaged in transactions outside the trading system of the exchanges and, therefore, concluded that the sub-broker indulged in illegal trading, as alleged by the complainant, besides committing several other irregularities as stated above.

4. Upon perusal of the aforesaid facts contained in the reports submitted by NSE and BSE, it, prima facie, appears that the sub-broker has violated / not complied with various provisions of law which govern trading in the securities market. I find that the sub-broker,

4.1 by not producing the relevant records, documents, books of accounts, etc, and refusing to explain the matters, exhibited non co-operation and thereby violated provisions of regulation 21(1) read with regulation 16 of the SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992 (Brokers Regulations) and clause (D) (2) of code of conduct prescribed under Schedule II read with regulation 15 of Brokers Regulations. The conduct of the sub-broker, as narrated at Para 3 (a), to say the least, displayed utter disregard for the rule of law.

4.2 by engaging in trades outside the stock exchanges, as stated in Para 3 (b) above, engaged in illegal trading in violation of section 19 (1) of Securities Contracts (Regulation) Act, 1956

as well as the code of conduct prescribed for sub-brokers in Schedule II read with regulation 15 of Broker Regulations.

**4.3** by issuing contract notes, which it is not authorized to do so under the law, it violated clause B (2) of the code of conduct prescribed under schedule II read with regulation 15 of Brokers Regulations and SEBI Circular MIRSD/DPS-1/CIR-31/2004 dated August 26, 2004. Further, issue of contract notes in a different format and without signatures, as stated in Para 3 (c) above, is in violation of SEBI circular No. SMD (B)/104/22775/93 dated October 29, 1993.

**4.4** by displaying misleading board and not displaying the registration certificate, as stated in Para 3 (d) above, violated NSE circular No. NSE/MEM/1591 dated April 20, 2000 and clause A(1) of the code of conduct prescribed under schedule II of Brokers Regulations.

**4.5** by operating IML Terminal without having the required certification, as stated at Para 3 (e), violated BSE Exchange notice no. 20070522-25 dated May 22, 2007 and no. 20071024-28 dated October 24, 2007.

**4.6** by dealing with another broker for his own trades without prior permission of the exchange, as stated in Para 3 (f) above, violated SEBI Circular SEBI/MIRSD/Cir-06/2004 dated January 13, 2004 and Regulation 2.1.12 (a) of Capital Market Segment of NSE.

**4.7** by failing to abide by the rules, regulations and byelaws of the stock exchange concerned, violated regulation 12A (1) (a) of the Brokers Regulations.

**5.** I am of the view that the aforesaid acts, commissions and omissions of the sub-broker are detrimental to the safety and integrity of the securities market and interests of investors. I note that SEBI has ordered an inspection of the books and records of the sub-broker. However, in the mean time, in order to prevent further harm to the investors and the securities market, it is necessary to issue appropriate preventive *ex parte* directions immediately against the sub-broker. After taking note of the reports of both of the exchanges, in exercise of the powers conferred upon me under Section 19, Sections 11(4) and 11B of the SEBI Act, 1992 and Regulation 35 of the SEBI (Intermediaries) Regulations, 2008, I hereby, by way of an ad interim ex-parte order, issue the following directions:

- (a) That the sub-broker, Shri Bhadresh Sanghvi (Trade Name: Arihant Investment), PAN: **(PAN No.: AXDPS8704K)**, SEBI Registration No. **INS235801011** is restrained from buying, selling or dealing in the securities market in any manner

whatsoever or accessing the securities market, directly or indirectly, either for himself or for his clients.

(b) That the depositories, National Securities Depository Ltd. and Central Depository Services (India) Ltd. shall not give effect to any debit instruction in demat accounts of the sub-broker (Shri Bhadresh Sanghvi or Arihant Investment) or in the demat accounts of any beneficial owner on the authority of power of attorney obtained by the sub-broker.

6. This order shall be treated as the show cause notice. The sub-broker may show cause, within 15 days from the date of this order, as to why the directions passed in this order shall not be continued.

7. The sub-broker may inspect the relevant documents on any working day within 15 days during office hours at SEBI office at Bandra Kurla Complex, Mumbai – 400051. If it so desires, it may seek an opportunity of personal hearing at SEBI office at Bandra Kurla Complex, Mumbai 400051 on a date and at a time to be fixed on a specific request, to be received in this behalf from it within 15 days from the date of this order.

8. All the aforesaid directions shall come into force with immediate effect and shall remain in force until further orders.

9. A copy of this order shall be served on NSE, BSE, NSDL and CDSL for appropriate action.

**Date: December 21, 2009**  
**Place: Mumbai**

**M. S. SAHOO**  
**WHOLE TIME MEMBER**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**