

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: Dr. T. C. NAIR, WHOLE TIME MEMBER

In the matter of M/s Moneycare Securities & Financial Services Limited, member, the National Stock Exchange of India Limited, (SEBI Registration No. INB 230647131).

Date of hearing: 28.03.2007

Appearances:

For noticee: Shri Rajesh P Doshi, Managing Director
Shri Mahesh Kothari, Director

For SEBI: Shri P K Nagpal, Executive Director
Shri Ansuman Dev Pradhan, Manager
Ms Kshama Chavan, Legal Officer

ORDER

(Under Regulation 13(4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002)

1. Securities and Exchange Board of India (SEBI) conducted investigations into the alleged market manipulation and irregularities in the trading of the scrip of Adani Exports Limited (hereinafter referred to as 'AEL') for the period from January 1999 to March 1999 (hereinafter referred to 'relevant period' or 'investigation period'). AEL was listed on the National Stock Exchange of India Ltd. (NSE), the Bombay Stock Exchange Limited

- (BSE) and Ahmedabad Stock Exchange (ASE) during the relevant time.
2. The investigation revealed that during the investigation period the price of the scrip of AEL went up from Rs. 242/- to Rs. 498/- at NSE. During the same time there was also increase in number of trades per day from single digit levels (4-9 trades per day) to 40-60 trades per day. Volumes also increased from around 400 shares per day to levels of 7000-8000 shares per day. It was observed that total volume on NSE during the investigation period was 2,66,900 shares while the total volume on BSE during the same period was 2,14,400 shares. The investigation further revealed that there were wide fluctuations in the prices and volumes of shares traded on both the Stock Exchanges for example at NSE the price increased from Rs. 293.5 on February 3, 1999 (settlement no. 1999005) to Rs. 498 on March 31, 1999 (Sett No. 12). It was also seen that during this period, while the traded quantity was increasing and was at higher levels, the total net quantity (percentage delivery) was low- i.e. in the range of 5% - 20%. On an analysis of trading patterns of members and clients who had traded in the scrip of AEL during the relevant period, it was seen that the trading was concentrated among a group of brokers and clients.
 3. M/s. Moneycare Securities and Financial Services Limited (hereinafter referred to as 'MSFSL'), member, NSE and a SEBI registered stock broker having its registration number INB 230647131 was one among the brokers who had traded actively in

the scrip of AEL at NSE during the relevant period. The investigation revealed that MSFSL traded in the scrip of AEL on behalf of its client Prerak Capital Service Private Limited (hereinafter referred to as 'Prerak') and thereby facilitated market manipulation.

4. In view of the above, the investigation concluded that MSFSL has violated the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 and SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 (hereinafter referred to as 'PFUTP Regulations' and 'Broker Regulations').
5. Therefore, vide order dated October 14, 2004, an Enquiry Officer was appointed by SEBI under Regulation 5 of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as 'Enquiry Regulations') to enquire into the alleged violations / contraventions, if any, of PFUTP Regulations and Broker Regulations by MSFSL.
6. The Enquiry Officer issued a Show Cause Notice dated November 24, 2004 under Regulation 6(1) of the Enquiry Regulations to MSFSL communicating the charges leveled against it. MSFSL replied to the said Show Cause Notice vide letter dated January 17, 2005 and submitted inter alia the following:
 - a) It had dealt in the scrip of AEL for its client Prerak at NSE and its average volume on NSE in the said scrip was 7.63% which

was not alarming. It had no connection as regards the transactions executed by Prerak at BSE.

- b) Except for one settlement (Settlement No.9909) Prerak had squared off their transactions in the scrip of AEL in all the settlements. In settlement no.9909, Prerak had dealt through another member Madhuvan Securities.
- c) The time difference of placement of orders during the relevant period by the buyer and the seller ranged from 28 seconds to 165 seconds in all settlements and this time difference is enough for any unknown buyer or seller in the market to strike and execute the order.
- d) The allegation of its association with Prerak and Abhinav is not justifiable as MSFSL did not have any vested interest in dealing in the scrip of AEL. Moreover, trading of 2000 to 3000 shares in any scrip in a weekly settlement was not high or alarming.
- e) MSFSL was not acquainted with Abhinav or other counter party brokers and it had no knowledge of Prerak's activities outside their broking house or their activities at any broker's place at BSE.
- f) The volume of deals executed by MSFSL was low as compared to the total volume at NSE.
- g) During the relevant period the stock market was in a booming stage and it was difficult for a broker to get alarmed on such volumes.

7. As requested, MSFSL was granted personal hearing by the Enquiry Officer as per Regulation 9 of the Enquiry Regulations on February 16, 2005 when Shri Mahesh Kothari, Director, MSFSL, Shri Rajesh Doshi, Director, MSFSL and Shri K.P. Mehta, Consultant, MSFSL appeared before the Enquiry Officer.
8. The Enquiry Officer, after considering the charges of contravention of the provisions of the aforementioned Regulations, the written as well as oral submissions made by MSFSL before her, submitted the Enquiry Report dated July 22, 2005 recommending a minor penalty of the suspension of Certificate of Registration of MSFSL for a period of one working day.
9. A show cause notice dated August 5, 2005 along with the copy of the said Enquiry Report was issued to the MSFSL under Regulation 13(2) of the Enquiry Regulations, informing about the Enquiry Officer's recommendation of penalty and advising it to show cause as to why action as may be considered appropriate should not be taken against it.
10. MSFSL submitted its reply dated September 14, 2005 and while reiterating most of the submissions already made before the Enquiry Officer, requested for a personal hearing.
11. Accordingly, a personal hearing was granted before me on March 28, 2007, when the representative of MSFSL appeared and orally reiterated the submissions already on record.

12. I have carefully considered the facts of the case, the findings of the investigations, the observations and findings made by the Enquiry Officer and all other material available on record. I have also taken note of the post Enquiry reply dated September 14, 2005 of MSFSL and the oral submissions made before me during the personal hearing.
13. I find that during the investigation period the price of the scrip of AEL shot from Rs.242/- to Rs.498/- and the volume increased from 400 shares per day to 7000 - 8000 shares per day. The number of trades also increased from 4 - 9 trades per day to 40 - 60 trades per day. The price volume data of the scrip of AEL on NSE and BSE during the relevant period is as under:

NSE			BSE	
Date	Price(Rs.)	Volume	Price (Rs.)	Volume
1999	High-Low	(No. of Shares)	High-Low	(No. of Shares)
1/1 - 15/1	231-245	8600	235-250	4000
18/1 - 29/1	247-284	28800	250-305	36700
1/2 - 5/2	285-295	59600	285-307	53800
16/2 - 27/2	280-335	67000	270-340	52300
1/3 - 15/3	361-427	60500	345-440	42700
16/3 - 31/3	428-498	42400	426-500	24900

14. Upon analysing the trading pattern as brought in the investigations, I find that the trading in the scrip during the relevant period was

concentrated among three brokers namely JBS Securities, Madhuvan Securities and MSFSL and three clients namely M/s. Abhinav Investments, M/s. Anand Investments and Prerak who had dealt through these three brokers. The trades done by these three clients were about 68% of the total trades in NSE and BSE. Details of the total trades are as under:

	Total (One Side - Purchase or sale) during the period January 1, 1999 to March 31, 1999	Three Clients Combined
NSE	266900	164600 (61.7%)
BSE	214400	165100 (77%)
Total	481300	329700 (68.5%)

The transactions of the aforementioned brokers as a whole during the relevant period are as under:

Settlement No.	Total Traded Quantity (Shares)	Total of three Members			
		Gross Buy	% of Total	Gross Sell	% of Total
9905	29700	27000	90.91%	25700	86.53%
9906	28100	25200	89.68%	21300	75.80%
9907	31200	26300	84.29%	23700	75.96%
9908	35300	32200	91.22%	23900	67.71%
9909	33600	11300	33.63%	8900	26.49%
9910	27100	13300	49.08%	6800	25.09%
9911	21800	8500	38.99%	6900	31.65%

15. I find that Prerak traded in the scrip as a client through MSFSL. The trade details are as under:

Settlement No.	Total Traded Quantity	Prerak	Prerak	Prerak	Prerak	Total	% cont. to total traded qty
Buy/Sell		Buy	Sell	Buy	Sell		
Broker		Through Madhuvan		Through Moneycare			
9905	29700	0	0	2500	2500	2500	8.42
9906	28100	0	0	2000	2000	2000	7.12
9907	31200	0	0	3500	3500	3500	11.22
9908	35300	0	0	3600	3600	3600	10.20
9909	33600	3200	3200	400	400	3600	10.71
9910	27100	2000	2000			2000	7.38

From the investigation, I further find that the clients Abhinav and Prerak had indulged in self trades and reversal of their positions on NSE and BSE either during the same settlement itself or in succeeding settlements and thereby enhanced and created illusory volumes and misleading appearance in the market. These transactions gave misleading appearance of volume and enhanced liquidity. Orders were entered into the system within a gap of few seconds /minutes. This ensured that the buyers got the desired sellers and vice versa. To this extent there was synchronization of orders.

Further, the following table highlights the reversal in positions by Abhinav and Prerak while trading with the three brokers JBS, Madhuvan and MSFSL at NSE from settlement no.1999005 to 1999009.

Particulars			JBS Security		Madhuvan Security		MSFSL	
Settlement No.	Buying Client	Selling Client	Buy	Sell	Buy	Sell	Buy	Sell
1999005	Abhinav	Abhinav	10000			10000		
3/2 - 9/2	Abhinav	Abhinav		10500	10500			
	Abhinav	Prerak	700					700
	Abhinav	Prerak			1500			1500
	Prerak	Abhinav				2000	2000	
	Prerak	Abhinav		500			500	
1999006	Abhinav	Prerak	1900					1900
10/2-16/2	Abhinav	Abhinav	7300			7300		
	Abhinav	Abhinav		9400	9400			
	Prerak	Abhinav				2000	2000	
1999007	Abhinav	Abhinav	7500			7500		
17/2-23/2	Abhinav	Prerak	2500					2500
	Abhinav	Abhinav		9000	9000			
	Abhinav	Prerak			1000			1000
	Prerak	Abhinav				2500	2500	
1999008	Prerak	Abhinav		1800				1800
24/2-1/3	Abhinav	Abhinav		7300	7300			
	Abhinav	Prerak			2000			2000
	Abhinav	Prerak	1500					1500
	Abhinav	Abhinav	6300			6300		
1999009	Abhinav	Abhinav	700			700		
3/3 -9/3	Abhinav	Prerak	400					400
	Abhinav	Abhinav		2200	2200			
	Abhinav	Prerak		400			400	

From the table it is seen that in settlement number 1999005 (between 3/2/99 - 9/2/99), Prerak bought 2500 shares through MFSL and also sold 2500 shares through MFSL. When Prerak bought 2500 shares, it was Abhinav who sold the shares i.e. 500 shares through JBS Securities 2000 shares through Madhuvan. Similarly when Prerak sold their 2500 shares through MSFSL, a total of 2200 shares

were purchased by Abhinav (700 shares through JBS and 1500 shares through Madhuvan) clearly highlighting the nature of dealings between the Prerak and Abhinav. In settlement no.1999006, there were reversal of trades between Prerak and Abhinav. Abhinav bought 1900 shares through JBS and Prerak sold 1900 shares through MSFSL. Similarly, when Prerak bought 2000 shares through MSFSL, it was Abhinav who sold the said shares through Madhuvan. Transactions of similar nature were observed between Prerak and Abhinav in next settlements 1999007, 1999008 and 1999009.

I further find that there were some trades executed by MSFSL, Madhuvan and JBS on behalf of Abhinav and Prerak, where there was proximity in the time of logging the buy and sell orders for the same price and same quantity. The details of such instances are as follows:

Sett No. 1999005, February 03, 1999: February 27, 1999 - Transactions when Prerak is buying and Abhinav is selling

Date	Time	Rate	Qty	Buying Broker	C li	Sell bro	Sell clt	Buy time	Buy Qty	Buy Rate	Sell Time	Sell Qty	Sell Rate	Time Diff
03-Feb-99	11:13:03	293.00	500	MC	P	MD	A	11:13:03	293.00	500	11:12:07	293.00	500	0:00:56
03-Feb-99	11:13:34	293.50	500	MC	P	MD	A	11:13:34	293.50	500	11:12:17	293.50	500	0:01:17
03-Feb-99	11:13:53	294.00	500	MC	P	MD	A	11:13:53	294.00	500	11:12:24	294.00	500	0:01:29
09-Feb-99	14:35:45	287.00	500	MC	P	MD	A	14:35:45	287.00	500	14:34:53	287.00	500	0:00:52

Note: MC: Moneycare P: Prerak, A: Abhinav, MD: Madhuvan

Sett No. 1999006, February 26, 1999, February 27, 1999 - Transactions when Abhinav is buying and Prerak is selling

Date	Time	Rate	Qty	Buying Broker	Client	Sell bro	Sell clt	Buy time	Buy Qty	Buy Rate	Sell Time	Sell Qty	Sell Rate	Time Diff
10-Feb-99	15:09:03	293.10	400	JBS	A	MC	P	15:09:03	400	293.10	15:05:52	500	293.10	0:03:11
10-Feb-99	15:09:16	293.15	500	JBS	A	MC	P	15:09:16	500	293.15	15:06:08	500	293.15	0:03:08
11-Feb-99	13:02:45	292.50	500	JBS	A	MC	P	13:02:45	500	292.50	13:00:33	500	292.50	0:02:12
11-Feb-99	13:02:58	293.00	500	JBS	A	MC	P	13:02:58	500	293.00	13:00:43	500	293.00	0:02:15

Sett No. 1999007, February 17, 1999 : February 27, 1999 - Transactions when Abhinav is buying and Prerak is selling

Date	Time	Rate	Qty	Buying Broker	Cli	Sell bro	Sell clt	Buy time	Buy Qty	Buy Rate	Sell Time	Sell Qty	Sell Rate	Time Diff
17-Feb-99	11:04:02	295.00	500	JBS	A	MC	P	11:04:02	500	295.00	11:03:13	500	295.00	0:00:49
17-Feb-99	11:04:11	296.00	500	JBS	A	MC	P	11:04:11	500	296.00	11:03:23	500	296.00	0:00:48
18-Feb-99	13:25:08	280.00	500	JBS	A	MC	P	13:25:08	500	280.00	13:24:40	500	280.00	0:00:28
18-Feb-99	13:25:22	281.00	500	JBS	A	MC	P	13:25:22	500	281.00	13:24:18	500	281.00	0:01:04
19-Feb-99	15:08:05	282.50	500	JBS	A	MC	P	15:08:05	500	282.50	15:07:27	500	282.50	0:00:38

Sett N. 1999008, February 27, 1999 - Transactions when Abhinav is buying and Prerak is selling

Date	Time	Rate	Qty	Buying Broker	Cli	Sell bro	Sell clt	Buy time	Buy Qty	Buy Rate	Sell Time	Sell Qty	Sell Rate	Time Diff
27-Feb-99	13:37:28	330.50	500	MD	A	MC	P	13:37:28	500	330.50	13:36:04	500	330.50	0:01:24
27-Feb-99	13:37:46	331.00	500	MD	A	MC	P	13:37:46	500	331.00	13:36:15	500	331.00	0:01:31
27-Feb-99	13:38:17	331.50	500	MD	A	MC	P	13:38:17	500	331.50	13:36:27	500	331.50	0:01:50
27-Feb-99	13:38:33	332.00	500	MD	A	MC	P	13:38:33	500	332.00	13:36:36	500	332.00	0:01:57

Sett N. 1999009, March 4, 1999 - Transactions when Prerak is buying and Abhinav is selling

Date	Time	Rate	Qty	Buying Broker	Clt	Sell bro	Sell clt	Buy time	Buy Qty	Rate	Sell Time	Sell Qty	Sell Rate	Time Diff
04-Mar	13:02:23	374.50	200	MC	P	JBS	A	13:02:23	200	374.50	12:59:53	400	374.50	0:02:30
04-Mar	13:02:56	374.50	200	MC	P	JBS	A	13:02:56	200	374.50	12:59:53	400	374.50	0:03:03

The details above show that while executing the above trades, there was some prior understanding or arrangement between the brokers and clients which has resulted in high volume in the market.

16. I have carefully gone through the submissions made by MSFSL with regard to the charges levelled against it. One of such defences taken by MSFSL was that it was not aware of the identity of the opposite party. This contention of MSFSL is not satisfactory because it was not a mere coincidence and at least on 10 occasions there was near perfect matching of the time, order and price. In all these occasions, it is interesting to note that the two clients were the same. I further note from the investigation report that there were no other members placing orders in the scrip apart from MSFSL, JBS and Madhuvan. This clearly shows a concerted effort between these clients and brokers.
17. I have also taken into consideration the mitigating factors such as the proximity in timing of placement and execution of the order was not too close in all the orders and in fact at times was enough for any buyer or seller in the market to execute the order. Further as per the investigation report, MSFSL has not done substantial transactions in

the scrip of AEL. Furthermore MSFSL has not executed any proprietary trades in the scrip of AEL.

18. At the same time, on a cumulative consideration of all the factors such as AEL was an illiquid scrip during the relevant time and the creation of volumes and liquidity in such scrip was capable of misleading the investors in their investment decisions, I am of the view that as a responsible market participant, the broker, MSFSL should have been more careful. Usually the investors who are not well versed with market practices will be influenced by performance of particular scrips in the market. In the instant case, more than 60% of the trades were concentrated between two clients who were dealing through three brokers and MSFSL was one of them. Hence I hold the view that the broker being the part and parcel of a well developed market system, was having a sanctified obligation to act with utmost care and caution in its dealings. Had MSFSL acted with due diligence, skill and care, it would have been able to detect the misdeeds of the clients in the transaction in question wherein the clients from the same group were appearing from both sides of the trade at various occasions.
19. Hence, while giving the benefit of the mitigating factors as stated above in this order, I am of the view that MSFSL should have adhered to the mandatory provisions of SEBI Act and Regulations made there under and should have been more careful to ensure the transactions, which were fraudulent and manipulative in nature, should not have been executed through it. Taking into account the above mentioned mitigating circumstances, I am of the view that

- suspending the certificate of the broker for a period of one day will serve the ends of justice.
20. Therefore in exercise of the powers conferred upon me under Section 19 of SEBI Act, 1992 read with Regulation 13 (4) of the SEBI (Procedure for Holding Enquiry by Enquiry Officer and imposing penalty) Regulations, 2002, I hereby suspend the certificate of registration M/s Moneycare Securities & Financial Services Limited, member, the National Stock Exchange of India Limited, (SEBI Registration No. INB 230647131 and PAN No. AAACM4056H) for one day.
21. This order shall come into effect on the expiry of 21 days from the date of this order.

DATE:20/02/2008
MUMBAI

T C NAIR
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA