

**SECURITIES AND EXCHANGE BOARD OF INDIA**

**CORAM: T.C. NAIR, WHOLE TIME MEMBER  
AGAINST M/S LYONS RANGE SHARE BROKING PVT LTD.  
IN THE MATTER OF INVESTIGATION INTO DEALINGS IN THE SCRIP OF  
ANKIT PRACHI TRADING AND INVESTMENTS LTD.**

**WTM/TCN/IVD/ID1/ /06**

DATE OF HEARING: Not sought for

**ORDER**

**[UNDER REGULATION 13(4) OF THE SEBI  
(PROCEDURE FOR HOLDING ENQUIRY BY THE  
ENQUIRY OFFICER AND IMPOSING PENALTY)  
REGULATIONS, 2002]**

**1.0 Facts of the case**

1.1 M/s. Lyons Range Share Broking Pvt. Ltd (hereinafter referred to as 'the broker') is a member of the Calcutta Stock Exchange (hereinafter referred to as 'CSE') and is registered with the Securities and Exchange Board of India, (hereinafter referred to as 'SEBI') as a stock broker vide registration number INB 030756937.

1.2 SEBI observed an unusual price rise in the scrip of Ankit Prachi Trading and Investments Ltd. (hereinafter referred to as 'APTIL') which moved from Rs. 8.40 to Rs.86/- during the period December 5, 1997 to February 26, 1998. Since the sudden rise in the price of the said scrip was neither justified by the fundamentals of the company nor any announcements made by it during this period, SEBI

ordered an investigation into the possible price manipulation in the scrip of APTIL, and in pursuance to the same, sought for information from the CSE as regards the trading details of the scrip, in regard to price volume data and the names of the top trading brokers in the said scrip during the relevant period, to examine the possible violation of the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 and the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as the 'FUTP Regulations' and 'Broker Regulations' respectively) and Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as SCRA). The information so furnished inter-alia revealed that the broker was among the major brokers who traded in the said scrip of APTIL along with two other brokers viz. S.K. Khattry & Co. and Ladha & Co. and had contributed nearly 96% of the total gross traded volume of the scrip at the exchange and appeared to have contravened the provisions of the FUTP Regulations and the Broker Regulations.

## **2.0 Appointment of Enquiry Officer and Enquiry Report:**

- 2.1 In view of the above, the Chairman, SEBI, appointed an Enquiry Officer vide order dated July 24, 2003 read with order dated March 28, 2003 under the provisions of the SEBI (Procedure for holding Enquiry by the Enquiry Officer and Imposing Penalty), Regulations, 2002 (hereinafter referred to as 'the Enquiry Regulations') to enquire into the possible violations of the Broker Regulations and the FUTP Regulations, alleged to have been committed by the broker.
- 2.2 After taking into consideration the facts of the case and the evidence on record and having regard to the gravity of charges, the Enquiry Officer, vide his report dated February 6, 2004, recommended a penalty of suspension of the certificate of registration of the broker for a period of four months.

## **3.0 Show cause notice and reply**

- 3.1 SEBI issued a notice dated February 24, 2004 to the broker, calling upon to show cause as to why the penalty as recommended by the Enquiry Officer should not be imposed upon them and to reply to the said notice within 21 days of the

receipt of the notice failing which it would be presumed that they had no explanation to offer and that SEBI would be then constrained to proceed ex-parte. As the broker failed to reply to the said notice, another reminder dated April 27, 2004 was sent to the broker. However, the broker failed to reply to the second notice. Instead vide letter dated May 14, 2004, the broker submitted that already submissions have been made before the enquiry officer. Nowhere it was indicated in the letter clearly that it was in complete reply to the show cause notice dated February 24,2004. On December 6,2004 the broker enclosed the letter dated May 14,2004. Later vide letter dated June 15, 2005 the broker indicated that letter dated May 14,2004 was the reply to show cause notice dated February 24,2004. Further, the broker vide letter dated August 30, 2005 had asked for final order in the matter. Vide letter dated January 13, 2006, the broker was asked to indicate whether he wanted a personal hearing. The broker replied to the said letter vide its letter dated January 18, 2006 and submitted that their submissions written and Oral, made before the Enquiry Officer may be taken into account and final order be passed in the matter. The broker further submitted that they had not done any transaction in CSE for the last 6 months and this period should be considered as their suspension period.

#### **4.0 Consideration of issues and observations**

4.1 I have considered the facts of the case, reply of the broker dated January 18, 2006 and the evidence available on record, which includes the submissions made by the broker and their director, Shri Hari Mody.

4.2 I observe that the broker was one of the top brokers who had transacted in the scrip during the relevant period of investigation and had along with two other brokers viz. S.K. Khattry & Co. and Ladha & Co. had contributed to nearly 96% of the total gross traded volume at the exchange in the scrip. Moreover, the broker has also been found to be guilty of putting through a number of off market deals for its various clients as detailed below:

Sold by	Qty	Date	Payment recd.on	Bought by	Qty	Payment details		
						Cheq No.	Drawn on	Paid on
P.K.Baneerjee	5000	29/12/97	19/01/98	Suresh Patwari	1000	074894	UBI	17.01.98
				Ginni Devi Patwari	1500	844175	OBC	17.01.98
				Padam Kr sidharth Kr HUF	2500	585682	Vysya Bank	19.01.98
Juggon (shares of Ashika Stock Broking Ltd.	13500	12/1/98	Not red. but adjusted against purchases made later	Hemant Gupta HUF	2700	926411	PNB	16.2.98
				Kuldip Gupta HUF	2500	214418	UBI	16.2.98
				Arjun Gupta HUF	2800	904921	PNB	16.2.98
				Satish Gupta HUF	3000	433763	UBI	16.2.98
				Mohanlal Gupta & Sons HUF	2500	730015	UBI	16.2.98
Pujita Knittings P Ltd	4000	26/2/98	20/3/98	Strange Commercial P Ltd	4000	900862	UBI	16.3.98
Pujita Knittings P Ltd	4000	27/2/98	20/3/98	Front Trade Comm P Ltd	4000	--	--	18.3.98

4.3 I observe that Shri Hari Modi, Director of the broker, in his statement made to SEBI, admitted that these were off market deals.

- 4.4 It is to be noted that in terms of the provisions of SCRA, any transaction in securities which is not put through the exchange will have to be settled on a spot basis. Further SEBI, vide its Circular No.SMD/RCG/CIR/(BKG)/293/95 dated March 14,1995 has addressed the issue of reporting off-the-floor transactions and prescribed that all brokers are required to report to the exchange, all the transactions done on a spot basis on the same day.
- 4.5 Moreover, it is apparent from the payment details given in the table, that none of the off market transactions put through by the broker were settled within the period prescribed in terms of the provisions of the SCRA, but were settled with a considerable time lag of 15 to 30 days. In fact, the Director of the broker had himself admitted that they had not settled all the off-market transactions within the prescribed period. Furthermore, although Shri Mody had claimed that the off-market transactions of 22500 shares had been entered as a cross deal, as the same was permitted at that point of time and that they had informed the stock exchange of these transactions. When the broker was called upon to produce proof of the same, they stated that they did not have the copy of such disclosure to the exchange. Even when SEBI called upon CSE to provide proof of any intimation received by them in this regard from the broker, it was unable to find any report of "off market deal" of the aforesaid shares during the said period, despite searching for their old records in the warehouse. It is thus apparent that the broker did not report the spot transactions to CSE, as required by the SEBI Circular. In off market transactions, the mandatory requirement is due disclosure, and in the absence of any proof of such disclosure by the broker to CSE, the explanation of the broker that the said transactions were reported to the stock exchange cannot be acceptable and the broker is hence found guilty of having violated the provisions of SEBI Circular No.SMD/RCG/CIR/(BKG)/293/95 dated March 14,1995.
- 4.6 As stated earlier, the broker has admittedly executed a number of off the floor transactions in the scrip. The transactions were entered into in large quantities in a thinly traded scrip like APTIL. The gross volume of the off market transactions put through by the broker was 22,500 shares i.e. almost 50% of the market volume of

44,600 shares at that time. It is thus apparent that the volume of off the floor transactions which were executed by the broker in the said scrip, outside the recognized stock exchange and not reported to the stock exchange was quite substantial as compared to the total trading volume in the scrip.

4.7 SEBI has time and again stressed that all deals in listed securities should be executed only on the floor of the exchanges and that any off market transactions should be reported to the exchange on the same day so as to ensure that the price discovery mechanism of the stock exchanges is not distorted by keeping large volume of trading in any scrip outside the exchange mechanism. Most relevant is the fact that such unreported trades also avoid the prudent regulatory controls and market safety measures like payment of margins, intra-trade turnover, and exposure limits etc.

4.8 Regulation 4 (b) of FUTP Regulations provides that "no person shall indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market". In the present case there is a failure to report the off the floor transactions as well as entering into a transaction which is not a spot deal as per the definition of spot deal mentioned in SCRA. The first question to be decided is whether by entering into a deal other than spot deal is violative of Regulation 4(b) of FUTP Regulations. I find that by entering into any deal other than spot deal is violative Section 13 read with Section 18 and 2(i) of SCRA. That act will constitute violation of Regulation 4(b) of FUTP only when the same is calculated to create a false or misleading appearance of trading on the securities market. There is no evidence on record to show that the broker calculated to create a false or misleading appearance of trading on the securities market by entering into a deal other than spot deal. The second question arises for consideration is whether the failure to report the off the floor transactions is coming within the prohibitive ambit of Regulation 4(b) of FUTP Regulations. There is no evidence on record to show that the creation of volume outside the stock exchange trading mechanism was an act calculated to create a false or misleading appearance of trading on the securities market. Therefore it may not be held that Regulation 4(b) of FUTP is attracted in the present case. At the same time non reporting and entering into a

transaction other than spot deal comes within the prohibitive ambit of Clause A5 of code of conduct prescribed for Stock Brokers in Schedule II of Broker Regulations which mandates the stock broker to abide by the statutory requirements.

4.9 Further a certificate of registration is granted by SEBI to a stock broker, subject to the fulfillment by the broker of certain conditions laid down in Rule 4 of the SEBI (Stock brokers and sub brokers) Rules, 1992. Subrule (b) of rule 4 of the said Rules interalia provides that the Board may grant a certificate to a stock broker subject to the condition that, namely:

(b) he shall abide by the rules, regulations and bye-laws of the stock exchange or stock exchanges of which he is a member.

4.10 It is to be noted that under clause A(1) of the code of conduct brokers are required to maintain high standards of integrity, promptitude and fairness in the conduct of the business dealings. People, who operate in a manner otherwise, are not fit or proper persons to operate in the market. In the same way under clause A (2) of code of conduct broker shall act with due skill, care and diligence in the conduct of all his business. By the above conduct the broker has violated both Clause A (1) and A (2) of code of conduct mentioned for brokers.

4.11 By entering into such transactions as brought out above, the broker has not only failed to carry out its business operations in accordance with the provisions of law, but it has also violated the letter and spirit of the investor protection measures introduced by SEBI besides violating the provisions of SCRA relating to spot transactions, the circular issued by SEBI relating to off market transactions, as well as the bye-laws, Rules and Regulations of the Calcutta Stock Exchange, and also the provisions of Clause A(1) A(2) and A(5) of the Code of Conduct for the Stock Brokers as set out in Schedule II read with Regulation 7 of the Broker Regulations. I am, therefore, convinced that it is a fit case to impose penalty of suspension. I consider one month period of suspension will be adequate to meet the ends of justice.

## 5.0 Order

5.1 Therefore, in exercise of the powers conferred upon me in terms of section 19 of the SEBI Act, 1992 read with Regulation 13(4) of under the Enquiry Regulations, 2002, I hereby suspend the certificate of registration of *M/s Lyons Range Share Broking Pvt. Ltd* as a stock broker for a period of one month.

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

**DATE:** 16.10.2006

**PLACE:** MUMBAI

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

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