

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 28(2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 AGAINST LEAPROFIN SECURITIES LIMITED

1. The Securities and Exchange Board of India (hereinafter referred to as SEBI) had received a reference (dated September 9, 1998) from the office of Additional Deputy Commissioner of Police, Crime Branch, New Delhi which *inter alia* stated that Mr. B. B. Sharma, the promoter of the Hoffland Group of Companies (hereinafter referred to as the Hoffland Group) had been arrested and that he had disclosed the details of certain stock exchange memberships held by him in different names including Leaprofin Securities Limited (hereinafter referred to as the Broker), member, Over the Counter Exchange of India (hereinafter referred as OTCEI). The aforesaid letter further stated that the amount utilized for the purpose of the stock exchange memberships was diverted from the money collected from the public by the Hoffland Group. Thereafter, SEBI carried out an investigation to *inter alia* find nexus, if any, between certain entities including the Broker and the Hoffland Group. The aforesaid investigation conducted by SEBI *prima facie* revealed that the Broker was a front company of the Hoffland Group and was not a “fit and proper person” in terms of the Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004 (hereinafter referred to as the Fit and Proper Regulations). It was also found that the Broker had defaulted in paying turnover fees to SEBI. Subsequently, SEBI, vide order dated October 22, 2008 read with a subsequent order dated December 7, 2008 initiated an enquiry in terms of the provisions of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 (hereinafter referred to as the

Intermediaries Regulations) to enquire into the alleged violations of Regulations 5(A), 5(e), 6(A)(a) and 6A(d) of the Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations 1992 (hereinafter referred to as the Broker Regulations) read with Regulation 38(3) along with Schedule II of the Intermediaries Regulations. The Designated Authority (hereinafter referred to as the Enquiry Officer), vide Report dated March 29, 2010, while recommending the cancellation of the certificate of registration of the Broker observed that the Broker had contravened Regulation 5(e) (read with 5A) and 6A(d) of the Broker Regulations.

2. Thereafter, SEBI sent a notice dated April 15, 2010 to the Broker advising it to file its written representation within twenty one days as to why action as recommended by the Enquiry Officer should not be imposed against it. The said notice was sent through OTCEI. However, OTCEI, letter dated May 12, 2010 informed SEBI that the letter sent to the Broker (through speed post) returned undelivered. SEBI had also sent the show cause notice on July 9, 2010 to the Broker through OTCEI. OTCEI, vide letter dated July 30, 2010 informed that the said letter was also returned undelivered. Subsequently, an opportunity of hearing was also given to the Broker on December 3, 2010. The said letter, which was sent through OTCEI was also returned undelivered. Thus, SEBI had taken various steps in respect of the notices and letters, as mentioned above. The said notices/letters which were sent to the available address of the Broker returned undelivered. I note that the Enquiry Officer had also taken earnest efforts to serve the notices to the Broker. However, such results culminated without any success. In the facts and circumstances of the case, I do not consider it necessary to grant another opportunity to it and the present enquiry proceeding is considered and disposed of on the basis of the available material on record. One of the allegations leveled against is that the Broker is not a *“fit and proper person”*.

3. The investigation conducted by SEBI found that the Leaprofin Securities Limited was listed at DSE and that as per the Annual Report for the i.e. 1995-96, the directors of the said company are the following:

Sl. No.	Name of the Director
1.	Mr. B.P. Bansal
2.	Mrs. Sunita Bansal
3.	Mr. G.P. Bansal
4.	Mr. B.N. Srivastava
5.	Mr. Ravi Saxena

The above details were also confirmed by OTCEI to SEBI.

4. OTCEI, vide letter dated June 23, 2003 informed SEBI that, as per market information, Leaprofin Securities Limited had been bought by Hoffland Finance Limited. Further, it was also informed that OTCEI, had subsequently, received intimation of resignation of Mr. B.P. Bansal and Mrs. Sunita Bansal. It is noted that since the resignation of the said directors amounted to change in controlling interest, OTCEI had sought explanation from the Broker by way of registered post/courier. However, all the letters addressed to the Broker were returned undelivered. It is also noted that OTCEI had not given approval for the said change in the directorship of the Broker. It was also informed by OTCEI that it had deactivated the terminals of the Broker with effect from June 13, 1998 for the following reasons:-

- a. The Broker was reported to have been bought by Hoffland Finance Limited, who were suspended by SEBI for their involvement in the price rigging of M/s. JVG Departmental Stores.
- b. It did not satisfy the exchange in writing about the details of shareholding pattern, details of directors whole time directors and their controlling interest in other companies.
- c. It's Chairman and one whole time director resigned from the company without the consent of the exchange.

5. Further, it is noted from the copy of notice dated October 4, 1997 (obtained from the Delhi Stock Exchange Limited) for convening the 16th Annual General Meeting of the Broker that Mr. Vinod Pant and Dr. Rakesh Mishra were inducted as its directors. In the explanatory statement it was been stated that

both of them were earlier inducted as additional directors on January 22, 1997. Mr. B.P. Bansal further stated to SEBI that " *Between August '96 and October '96, one of my clients sold fake/stolen shares of Reliance and L&T worth about Rs. 17 lacs. in physical form. To meet my liabilities, I had decided to sell the company including OTCEI/NSE tickets. Around 11th January 1997, an advt. had appeared in Economic Times, with the heading 'Wanted NSE ticket'. A mobile number was given and I responded on that number and I was called to Hoffland office. There I met Sh. B.B. Sharma and then negotiations were carried for 10 to 15 days and on 22nd January '97, we signed an MOU. " The said Memorandum of Understanding entered into between Mr. B P Bansal and Mr. B.B. Sharma of Hoffland Group *inter alia* provided "divestment of total management control, interests, administration and all the shareholding under my control. I received total payment, as agreed and transferred the management, control and shareholding."* Mr. B. P. Bansal further stated that " *All payments have been made by way of Demand Drafts. I shall provide the said details in couple of days. The payments were made by 12 persons, who I understand were nominees of Sh. B.B. Sharma of Hoffland Group. These payments were made in a staggered manner over a period of 3 weeks in lots of around Rs. 5 lacs to Rs. 9 lacs. I understand that the payments were made in such a manner that each nominee of Sh. B.B. Sharma had less than 5% shareholding in the company. Sh. Vinod Pant joined as Whole-time Director w.e.f. 1st February '97 (in place of my wife) and some other directors had also joined, including Sh. Rakesh Mishra. I do not remember the details, but I shall furnish the same in a couple of days. Most of these new directors who joined after signing of MOU were employees of Hoffland Group.*" The payment details were also provided by Mr. B.P. Bansal to SEBI.

6. According to Mr. B.P. Bansal "*M/s Hoffland Group had operated the ticket for 10 months. They shifted NSE VSAT from Hauz Khas to Arunachal Building. They paid Rs. 25 lacs to NSE for 5 VSATS, which were put up at Shanker Market, Lucknow, Varanasi, Patna etc. and not only that they furnished bank guarantees over Rs. 100 lacs to NSE (over and the above the initial Rs. 25 lacs bank guarantee). Their volume was 100 times the volume during the time the NSE ticket was with me.*" He further stated that he was a director for name sake, while all operational control was with Mr. B.B. Sharma and his nominees, who were on the board of the Broker. It was also observed that in the current account of the Broker maintained with the Oriental Bank of Commerce

Safdurjung Enclave (CA No. 2313 on February 20, 1997), the authorized signatory was Mr. Rakesh Mishra.

7. Further, from the letter dated July 28, 2003 received by SEBI from Mr. N C Pandey, director of Bharatendu Financial Services Private Limited (another Hoffland group entity), it was stated that Broker was one of the entities in whose name the membership of stock exchanges was acquired. This had been confirmed by Mr. B. B Sharma, Chairman Hoffland Group before the police. Thus, it is clearly establishes that there were close linkages between the Broker and the Hoffland Group. It is also observed that the modus operandi in the instant case was similar to that followed by Hoffland group in acquiring other memberships around that time. I note that the conduct of the Hoffland Group has been investigated by the Police and that it is learnt that several prosecution cases have been initiated against it. Further, Hoffland Group has defaulted in payments to its investors.

8. It stands established that the Broker does not fulfill the basic parameters such as financial Integrity, good reputation, character, etc to be considered as "Fit and proper Person" for the purpose of acting as a registered stock broker with SEBI. It is thus established that the Broker is not a fit and proper person as required under 5(e) of the Broker Regulations which required the member to be a "Fit and Proper Person". On the basis of the above findings, linkages of the entity with the Hoffland Group, incriminating facts pertaining to the Hoffland Group, available evidence, facts and circumstances of the case and applicable provisions of law, I conclude that the Broker is not a "Fit and proper Person" in terms of the Broker Regulations read with the provisions of the Intermediaries Regulations. Thus I find that the Broker is not a fit and proper person in terms of the Fit and Proper Person Regulations as well as the Intermediaries Regulations. Therefore, I find that the member has failed to comply with the requirements of Regulation 5(A) and 5(e) of the Broker Regulations read with

Regulation 38(3) along with Schedule II of the Intermediaries Regulations. I also note that OTCEI had expelled the Broker from its membership with effect from March 30, 2005. Thus, the Broker had also failed to comply with Regulation 6A(a) of the Broker Regulations as it is not holding the membership of a stock exchange, a primary requirement to obtain the certificate of registration as a stock broker. The stock broker has also not paid the turnover fees of ₹68,379/- (inclusive of ₹39,993/- on account of interest to SEBI and thus it had contravened Regulation 6A(d) of the Broker Regulations. Though, sufficient opportunities were provided to the Broker it did not avail of the same and instead kept itself away from the enquiry proceeding. Such a person, in the facts and circumstances deserves no leniency.

9. In view of the foregoing, I in exercise of the powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28 of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby cancel the certificate of registration granted to the stock broker, Leaprofin Securities Limited (Registration no. INB 200559331).

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

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

**PLACE: MUMBAI
DATE: MARCH 8, 2011**