

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: DR. K.M. ABRAHAM, WHOLE TIME MEMBER**

ORDER

**UNDER REGULATION 28(2) OF THE SECURITIES AND EXCHANGE BOARD
OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 AGAINST CFL
SECURITIES LIMITED IN THE MATTER OF CEAT LIMITED**

1. The Securities and Exchange Board of India (hereinafter referred to as SEBI) had initiated an enquiry, vide Order dated November 14, 2003, under the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (since rescinded) against CFL Securities Limited (hereinafter referred to as the stock broker), a trading member of the National Stock Exchange of India Limited (hereinafter referred to as NSE) and a stock broker registered with SEBI. The said enquiry was directed on the basis of the findings of an investigation conducted by SEBI into the dealings *inter alia* of the stock broker in the shares of Ceat Limited (hereinafter referred to as the Company) during the period January 2000 to March 2000 and March 2001 to May 2001 (hereinafter referred to as the investigation period). The Enquiry Officer, on completion of the enquiry, found that the stock broker had contravened Regulation 4(a) and (b) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as the PFUTP Regulations) and Clauses A(3), (4) and (5) of the Code of Conduct for Stock Brokers specified in Schedule II of the Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992 (hereinafter referred to as the Stock Brokers Regulations) and vide Report dated September 2, 2005 recommended that the certificate of registration of the stock broker be suspended for a period of two months. Thereafter, SEBI vide notice dated September 15, 2005 enclosing therewith a

copy of the Enquiry Report, called upon the stock broker to show cause as to why action should not be taken against it as recommended by the Enquiry Officer. The stock broker submitted its response, vide reply dated October 18, 2005. While the instant proceeding was in progress, the stock broker had filed an application for passing of a Consent Order in terms of SEBI Circular dated April 20, 2007. Thereafter, pursuant to the rejection of the said application, the present proceeding was resumed and the stock broker was granted an opportunity of hearing on July 2, 2009. On the said date of hearing, Mr. Bhupen C. Dalal, Advocate appeared on behalf of the stock broker and made submissions. Mr. Milan B. Dalal, director of the stock broker and Mr. Deepak Sheth were also present in the hearing. The learned advocate while making submissions, requested SEBI to dispose off all proceedings pending against the group entities. The learned advocate also undertook to file written submissions at the earliest. Thereafter, the written submissions of the stock broker was forwarded to SEBI by Mr. Bhupen C. Dalal, Advocate, vide letters dated September 22, 2010 and February 4, 2011. The submissions made by the stock broker are considered and discussed below in this Order.

2. I have considered the Enquiry Report, the replies/written submissions of the stock broker, the oral submissions made during the hearing and other material available on record. The Enquiry Officer has found that the stock broker had contravened Regulation 4(a) & (b) of the PFUTP Regulations and Clause A (3), (4) & (5) of the Code of Conduct for stock brokers prescribed under the Stock Brokers Regulations. The stock broker was found to have allegedly executed structured deals and the details of the same were mentioned in paragraph 6.1 of the Enquiry Report. The same have not been disputed by the stock broker before the Enquiry Officer and also before me. The Enquiry Officer had found that the stock broker had traded mainly in its own account and for its associate, Pursarth Trading Company Private Limited. It was also observed that the shares sold by Ms. Ashadevi Beriwal (trading through DGP Securities Limited) had been purchased

in spot transactions from M/s. Aditi A. Dalal (an entity related to the stock broker) and were sold and purchased back by the stock broker (own trades) by a scheme of finance. It was further observed by the Enquiry Officer that this cycle of financing and matched transactions were continued settlement after settlement during the period of investigation. Further, it was also observed that the stock broker was indulging in structured/matched transactions for own account as well as for its associate, Pursarth Trading Company Private Limited and the counterparty clients were again the associates of the stock broker, namely, Tropical Securities and Investments Private Limited and M/s. S. Ramdas. I also note that the Enquiry Report has mentioned the alleged structured deals executed by the stock broker with Fincap Portfolio Limited for its clients, Alaknanda Capital Services Private Limited and Ivory Securities Limited and also with HB Securities Limited for its client, Alaknanda Capital Services Private Limited. The stock broker was also found to have indulged in temporary funding arrangements for the pay-in obligations to the stock exchanges.

3. I further note that the Enquiry Officer had observed that:

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2. *The modus operandi for the purported financing transactions appears to be that the broker and his related and associated entities sold shares as “spot/off market deals” to various entities and would receive funds immediately. The entities, who bought these shares on “spot/off-market” would, in turn, sell these shares on the exchange and would therefore safeguard their interests as they would get covered by the settlement guarantee fund of the exchange. In most of these trades, the purchasing counter party has been found to be one of the related entities of the broker’s group, who had initially sold the shares on a spot/off market basis.*

3. *The above cycle of sale on spot/off market basis, subsequent sale by the purchasing entities on the market by entering into matched/structured deals with the entities who had initially offered the shares on spot/off market basis, continued settlement after settlement during the time period of investigation. The trading which took place on the exchanges, during the time period of investigation, was mirroring the financing arrangements which had crystallized outside the exchange as spot/off market deal. These transactions, which took place during this time*

period, and matched/structured between broking entities, who were directly/indirectly a party to the financing transactions. Therefore, these matched/structured transactions were entered into with a purpose. .

4. The broker did not contradict the above sequence of events. It is also an admitted position that broker entered into financing transactions. I therefore hold the broker guilty of creating a misleading appearance of liquidity in the scrip and thereby enabled his clients and associates to off load in an illiquid scrip.

5. Thus, the broker has misused the exchange mechanism, settlement after settlement to serve his vested interest, thereby putting the investors at large, to undue risk.”

4. The stock broker has not disputed the transactions in his replies/submissions or before me in the hearing. The stock broker's submissions in its replies/written submissions dated September 22, 2010 and February 4, 2011 have been that “there has not been the case of SEBI and neither have we resorted to any other violations except excessive volumes in ill liquid scrips.....” and that “...we have for almost the same period transactions in few other scrips and the nature of transaction is similar i.e. financing only...” I also note that the stock broker has submitted “...our transactions were merely spot funding and that there was no motive or intention to gain out of these transactions and neither has that been the finding of SEBI, though inadvertently it has resulted in excessive volume on those particular days.” Even in its earlier reply dated October 18, 2005, the stock broker has admitted that “we have not gained from these transactions except having created the liquidity by selling shares and buying it back on the exchange and finally our long holding stock was sold by the NSE to clear the default in the valan account i.e. in November and December, 2001 required to tide the financial tightness”. Thus, I note that the stock broker has not disputed the transactions and has admitted indulging in them for the purposes of financing arrangements. Though, the stock broker has stated that it had not intentionally entered into fictitious trades, its transactions have been executed not for the genuine purpose of purchase or sell, and therefore have indeed created false or

artificial volumes in the shares of the Company. Further, there was no real transfer of beneficial ownership of shares so traded.

5. Thus, I find that the transactions executed by the stock broker in the shares of the Company during the investigation period were not for the genuine purposes, instead were executed for the purposes of temporary funding to satisfy the pay-in obligations of the stock exchanges. Thus, the said transactions were fictitious. The same also created artificial volumes in the shares of the Company during the relevant period. Further, I note that there were price fluctuations in the shares of the Company and that the share price was ₹48.45/- on January 5, 2000 and touched a high of ₹76.80/- and the volumes had also substantially increased during the relevant period. The clients of the stock broker, namely, Harbinger Trading Company Private Limited and M/s. S. Ramdas were already found to have contravened the relevant provision of the PFUTP Regulations while dealing in the shares of the Company and have been restrained from assessing the securities market and prohibited from dealing in securities, vide an earlier Order of SEBI dated January 17, 2011. In view of the foregoing, I find that the conduct of the stock broker is in contravention of Regulation 4(a) and (b) of the PFUTP Regulations. The stock broker by indulging in non-genuine transactions in the shares of the Company during the relevant period had contravened Clause A (3) and (4) of the Code of Conduct for stock brokers in the Stock Brokers Regulations. Further, by not abiding with the statutory provisions in this regard, the stock broker has also contravened Clause A (5) of the Code of Conduct for stock brokers in the Stock Brokers Regulations. I also note that the stock broker had committed similar violations while dealing in the shares of DCM Shriram Consolidated Limited more or less during the same period and for the said violations, its certificate of registration was suspended by SEBI for a period of three weeks, vide an Order dated January 17, 2011.

6. I note that the present enquiry proceeding has been initiated under the provisions of the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002. The said Regulations was subsequently repealed with effect from the notification of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 and therefore, this Order is being passed under the corresponding provisions of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.

7. In view of the foregoing, I, in exercise of powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulations 28(2) and 38(2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby suspend the certificate of registration of the stock broker, CFL Securities Limited (Registration No. INB230629433), trading member, National Stock Exchange of India Limited, for a period of two weeks.

8. As the Securities and Exchange Board of India had already suspended the certificate of registration of the aforesaid stock broker for a period of three weeks, vide an Order dated January 17, 2011, the penalty imposed in paragraph 7 above would run concurrently and shall come into force with immediate effect.

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

PLACE: MUMBAI
DATE: FEBRUARY 21, 2011