SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13 (4) OF SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002 AGAINST SONI SECURITIES LIMITED, MEMBER, NATIONAL STOCK EXCHANGE OF INDIA LIMITED, IN THE MATTER OF KREB BIOCHEMICALS LIMITED

1.0 Background

1.1 The Securities and Exchange Board of India (hereinafter referred to as "SEBI"), having noticed a spurt in the volume and price of shares of Kreb Biochemicals Limited (hereinafter referred to as "Kreb Ltd") during the period March-July, 1998, ordered an investigation into the trading of the shares of the company.

1.2 The shares of Kreb Ltd were listed on National Stock Exchange of India Ltd. (hereinafter referred to as "NSE"), The Stock Exchange, Bombay (hereinafter referred to as "BSE) and Hyderabad Stock Exchange.

1.3 Investigation conducted by SEBI revealed that the trades in the scrip, during the relevant period, were concentrated amongst 3 entities which were connected to each other. These trades, which accounted for a significant percentage of the turnover in the shares of Kreb Ltd., during the relevant period, appeared to have led to the unusual spurt in price and volumes in the said period.

1.4 From the data provided by NSE, Soni Securities Limited, member, NSE (hereinafter referred to as "member") was found to be one of the top brokers who dealt in the scrip, having traded on behalf of its client CDP Fincap & Leasing Pvt Ltd (hereinafter referred to as "CDP"), being one of the 3 entities mentioned at para 1.3 above.

2.0 Enquiry Proceedings

2.1 In view of the above, Chairman, SEBI, vide order dated 29th May 2003, appointed an Enquiry Officer (hereinafter referred to as "Enquiry Officer") under Regulation 5 (1) of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as "the said Regulations") to enquire into possible violations committed by the Member, inter alia, of Securities and Exchange Board of India (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as "Broker Regulations").

2.2 The Enquiry Officer, in accordance with regulation 6(1) of the said Regulations, issued a show cause notice dated 1st October 2003 to the member, advising them to show cause as to why action should not initiated against them for having violating clause A (2) of the Code of Conduct for stock brokers, as mentioned in Schedule II of Broker Regulations, which requires a broker to act with due skill, care and diligence while conducting business.

2.3 The member, vide letter dated 27th October 2003, replied to the above show cause notice, inter alia, submitting as follows

2.3.1 SEBI had initiated similar proceedings in 1998, in connection with their transactions with the Damayanti Group (also comprising CDP), in respect of BPL, Sterlite and Videocon and had subsequently debarred them from the capital market for a period of two years.

2.3.2 The transactions with CDP were on pure delivery basis, the volume of transactions being insignificant in comparison to the capital of Kreb Ltd and that they did not have any wrong intention while dealing on behalf of CDP.

2.3.3 In view the submissions, the member requested SEBI to take a lenient view.

2.4 The Enquiry Officer, after considering the submissions of the Member, submitted his report (hereinafter referred to as "the said Report") dated 12th February 2004, with the recommendation that no further penalty be imposed on the member for reasons given in the said report.

3.0 Show cause notice and hearing

3.1 As required under regulation 13(2) of the said Regulations, a show cause notice dated 21st May 2004 was issued to the member, advising them to show cause as to why their certificate of registration should not be suspended for a period of one month.

3.2 The member, vide letter dated 26th May 2004, responded to the above show cause notice and requested SEBI not to impose any penalty in view of SEBI's earlier order dated 4th August 1999, by which SEBI had debarred the member from accessing capital market for a period of two years. They submitted that the earlier penalty was also imposed on them for not showing due skill care and diligence while dealing on behalf of Damayanti Group. The member had admitted that it was a mistake not to have been more diligent while dealing on behalf of certain clients. The member submitted that it had already undergone punishment for the same and hence no further punishment should be imposed. In addition the Member had submitted that it had already surrendered its membership to NSE and hence requested SEBI to pass an order with retrospective effect, if at all.

3.3 A personal hearing was granted to the member on 25th June 2004, wherein Shri B K Soni and Ms. Anita Choudhary appeared on behalf of the member and requested for a lenient view to be taken. Sri Soni did not deny the allegation that the member had not shown due skill, care and diligence while dealing on behalf of its clients. He reiterated their earlier submission that the order to be passed, if any, be with retrospective effect.

4.0 Consideration of Issues

4.1 I have carefully considered the facts of the case, the findings of the Enquiry Officer, the reply of the broker to the show cause notice and other material on record. I find that:

4.1.1 The member has dealt with a client, who was involved in price manipulation in the shares of Kreb Ltd.

4.1.2 As admitted by the Member, it had not shown required due skill, care and diligence while dealing on behalf of its clients.

4.1.3 I observe that the Enquiry Officer had based his recommendation regarding no penalty against the member on the fact that SEBI had earlier suspended the registration of the member for a period of two years, vide order dated 04.08.1999, for a similar violation, as also the member's submission that his turnover in Kreb Ltd. was insignificant compared to his total turnover for the relevant period.

4.1.4 I further observe that in view of the findings mentioned at 4.1.3 above, the Enquiry Officer did not concur with the allegation that the Member had been party to the fraud sought to be perpetrated by CDP and had held that the member had not violated clause A (2) of the Code of Conduct as given under Second Schedule to the Broker Regulations. Enquiry Officer also observed that the allegations made against the Member are not proved to such an extent that the Member deserves to be punished by way of further suspension or cancellation and recommended that no further penalty be levied.

4.1.5 I am of the opinion that the member should have been more diligent in its dealings and should have exercised greater restraint and control in its dealings with CDP. By dealing with a client who had an ulterior motive, the member has failed to exercise proper skill and diligence. I also note that the member has admitted to lack of vision while dealing on behalf of CDP.

4.1.6 Hence, I am of the view that the member had not been diligent enough in showing due skill and care while dealing with its clients and hence, I am not inclined to accept the recommendation of the Enquiry Officer that no further penalty be imposed on the member.

5.0 Order

5.1 Therefore, in exercise of powers conferred upon me in terms of section 19 of the Securities and Exchange Board of India Act, 1992, read with Regulation 13 (4) of Securities and Exchange Board of India (Procedure for holding Enquiry by Enquiry Officer and imposing penalty) Regulations, 2002, I hereby impose a minor penalty of suspension of certificate of registration of Soni Securities Limited for a period of one month.

5.2 This order shall come into effect on expiry of three weeks from the date of this order.

A.K.BATRA

PLACE : MUMBAI **WHOLE TIME MEMBER**

DATE : July 05 , 2004 **SECURITIES AND EXCHANGE BOARD OF INDIA**