

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under regulations 28(2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 -

In the matter of Gangotri Textiles Limited

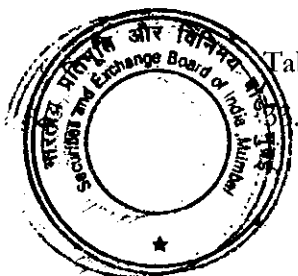
In respect of ISF Securities Limited (PAN: AAACI1667E)

1. Securities and Exchange Board of India (hereinafter referred to as "SEBI") conducted investigation in respect of buying, selling and dealing in the shares of Gangotri Textiles limited (hereafter referred to as "**Gangotri**"/"**Company**") during the period from April 07, 2006 to May 31, 2006 (hereinafter referred to as "**Investigation Period**") at NSE and BSE. This order is in respect of ISF Securities Ltd. ("**ISF**") which during the investigation period was found to have executed proprietary trades in the scrip of Gangotri, both in BSE and NSE. Trades on BSE were executed through Sam Global Securities Ltd., a registered stock broker.
2. Prior to the investigation period, the scrip of Gangotri was not listed on NSE and was only traded on BSE. During the period from January 2006 to April 6, 2006, the highest price was ₹52.25 (intra-day high on February 6, 2006) and lowest price was ₹40.55 (intra-day low on March 28, 2006). The average daily traded quantity during this period was 77,036 shares. During the Investigation Period i.e. between April 7, 2006 and May 31, 2006, the scrip of Gangotri was traded on both NSE and BSE. Details of the price volume data at BSE and NSE during the Investigation Period are as follows:-

TABLE 1

Exchange	Open	High	Low	Close	Average Daily Volume
BSE	53.25 07.04.06	70.95 05.05.06	43.00 19.04.06	44.35 31.05.06	241675
NSE	56.00 07.04.06	71.05 05.05.06	41.25 19.04.06	45.40 31.05.06	184236

Table I reveals that during the investigation period, the price of the scrip went up by 24% on BSE and 26.88% on NSE while the Sensex recorded a decrease of 12.21% (from

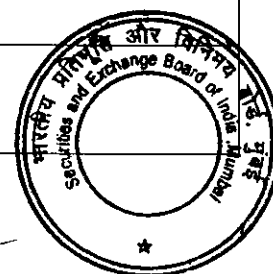


11845.13 on April 07, 2006 to 10398.61 on May 31, 2006) and Nifty recorded a decrease of 12.89% (from 3525.6 on April 07, 2006 to 3071.05 on May 31, 2006).

3. After the Investigation Period, between June 2006 to December 2006 it was noted that the price of scrip opened at ₹45.95/45.2 (NSE/BSE) on June 1, 2006 and closed at ₹27.35 / 26.7 (NSE/BSE) on December 29, 2006. The highest price during this period was ₹46.25 in (intra-day high on June 2, 2006) in NSE and ₹46.65 (intra-day high on June 5, 2006) in BSE. The lowest price during this period was ₹24 (intra-day low on December 13, 2006) in both NSE and BSE. The average daily traded quantity during this period was for 34,080/43,717 (NSE/BSE) shares.
4. It was observed that, during the Investigation Period, certain entities allegedly functioned as a group (hereinafter referred to as the "**Vishvas Group**") and by trading through their respective stock brokers or otherwise, had allegedly executed synchronized trades, circular trades and reversal trades amongst themselves and traded in significant variation to the Last Traded Price (LTP) in the shares of Gangotri. For the purpose of this order, synchronised trades are understood to be those trades where-
 - (i) the time difference, between buy order and sell order, is less than 60 seconds.
 - (ii) there is no difference between the price and quantity of the buy order and the sell order.
5. The list of the client members of the Vishvas Group and their stock brokers, if any, are stated below:

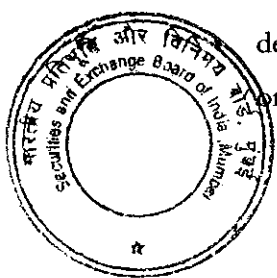
TABLE 2

Sr. No.	Name of the client	Name of the stock broker
1.	Ishita Finstock limited (" Isbita ")	Vishvas Securities limited (" VSL ")
2.	Sunita Gupta (" Sunita ")	Shri Parasram Holdings Private Limited (" Parasram ")
3.	Purshottam Khandelwal (" Purshottam ")	SIC Stocks and Services private Limited (" SIC ")
4.	Praveen Poddar (" Praveen ")	TCP Stock Brokers Limited (" TCP ")
5.	Vishvas Securities Ltd. (" VSL ")	Proprietary trades
6.	Anupama Communications Private limited (" Anupama ")	Proprietary trades



7.	ISF Securities Ltd (" ISF ")	Sam Global Securities Ltd. at BSE and proprietary trades at NSE
8.	Quantum Global Securities and Leasing Company Limited (" Quantum ")	Proprietary trades
9.	Cosmo Corporate Services Limited (" Cosmo ")	Integrated Master Securities Pvt. Ltd. (" Integrated ")
10.	Master Finlease limited (" Master ")	
11.	Mefcom Securities Limited (" Mefcom ")	Mefcom Securities Limited (" Mefcom ")
12.	Vishvas Projects Limited (" VPL ")	

6. To enquire into the alleged violations by the Vishvas Group with respect to their trades in the Gangotri scrip, including the role of ISF, Shri Jayanta Jash was appointed as the Designated Authority ("**DA**") vide order dated November 8, 2013 under regulation 24 of SEBI (Intermediaries) Regulations, 2008 ("**Intermediaries Regulations**"). The DA, issued show cause notice dated January 06, 2014 to ISF. After completion of the proceedings, the DA submitted a Report dated November 25, 2014 in respect of ISF (hereinafter referred to as "**the DA Report**"), wherein it was found that ISF had violated the provisions of sections 12A(a), (b) and (c) of the SEBI Act read with regulations 3(a), (b), (c) and (d), 4(1), 4(2)(a), (e) and (g) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 ("**PFUTP Regulations**") and regulation 7 read with Clause A of Schedule II of the SEBI (Stock Brokers and Sub-brokers) Regulations ("**Stock Brokers Regulations**") dealing with Code of Conduct for Stock Brokers. Accordingly the DA, in his Report, recommended suspension of certificate of registration of ISF for a period of four months.
7. After considering the DA Report, the Designated Member (DM) caused to issue a show cause notice (SCN) dated September 30, 2015, under regulation 28(1) of the Intermediaries Regulations calling upon ISF to show cause as to why action as recommended in the DA Report or as otherwise deemed fit should not be taken against it.
8. ISF filed its reply vide letter dated November 27, 2015 following which an opportunity of personal hearing was also granted to the Noticee on August 12, 2016. The then Whole Time Member who had granted opportunity of personal hearing to ISF had subsequently demitted office. Consequently, a fresh opportunity of personal hearing to ISF was granted on January 25, 2017, wherein Mr. Sandeep Parekh, Advocate along with Mr. Sunil Khemka,



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Director-ISF appeared on behalf of ISF and made submissions. The submissions were generally a reiteration of the written replies to the SCNs issued by the DA and the WTM.

9. Summary of facts and the related observations made by the DA in his Report in relation to the trades by ISF is discussed in the following sub- paragraphs.

9.1 Connected Entities: The DA relied on the Investigation report to note that members of the Vishvas Group were connected to each other through various means. Specifically with respect to ISF, the DA observed that ISF was connected to Master Finlease Ltd. on the basis of off-market transfer of shares for a total of 70,000 Gangotri shares on 09/06/2006, 10/06/2006, 13/06/2006, 16/06/2006, 27/06/2006, 28/06/2006, 29/06/2006 and 30/06/2006, and was connected to Purshotam, Cosmo, Sunita, Praveen, Mefcom, Avisha and VPL on the basis of synchronised trades executed between them.

9.2 Quantum of shares traded by the Vishvas Group members at BSE and NSE during Investigation Period are as under:

TABLE 3

Sr. No.	Members of Vishvas Gtoup	Traded quantity (During Investigation Period)			
		BSE		NSE	
		Buy	Sell	Buy	Sell
1.	Master	38000	18386	20500	111400
2.	Purshottam	2927835	2882486	0	0
3.	Cosmo	445643	320630	401520	471184
4.	ISF	389748	338795	453396	368574
5.	Quantum	0	0	302095	286835
6.	Ishita	0	0	1953803	1569204
7.	Praveen	460990	460990	0	0
8.	Sunita	342246	342246	0	0
9.	Mefcom	443942	348370	610646	667122
10.	Avisha	50000	0	0	0
11.	VSL	0	0	134460	118661
12.	VPL	100000	0	0	0
	Total	5198404	4711903	3876420	3592980

From the above, it is observed that as a percentage of shares traded by the Vishvas Group, ISF contributed to 11.69 % and 10.25 % of shares bought and sold on NSE, respectively. Similarly, on BSE, ISF contributed to 7.49 % and 7.19 % of shares bought and sold, respectively.



9.3 Trades on BSE and manipulation of volumes: On BSE, during the investigation period, seven members of the Vishvas Group including ISF had a gross buy position with total contribution of 57.1% (51,10,404 shares) of the total traded quantity and six members of the Vishvas Group, including ISF had a gross sell position with a total contribution of 52.5% (46,93,517 shares) of the total traded quantity. ISF had bought 3,89,748 shares and sold 3,38,795 shares in the Gangotri scrip. Out of total 37 trading days during the investigation period, on 20 days, ISF had bought and sold the shares of Gangotri. It is observed that on 5 days the net position of ISF was zero.

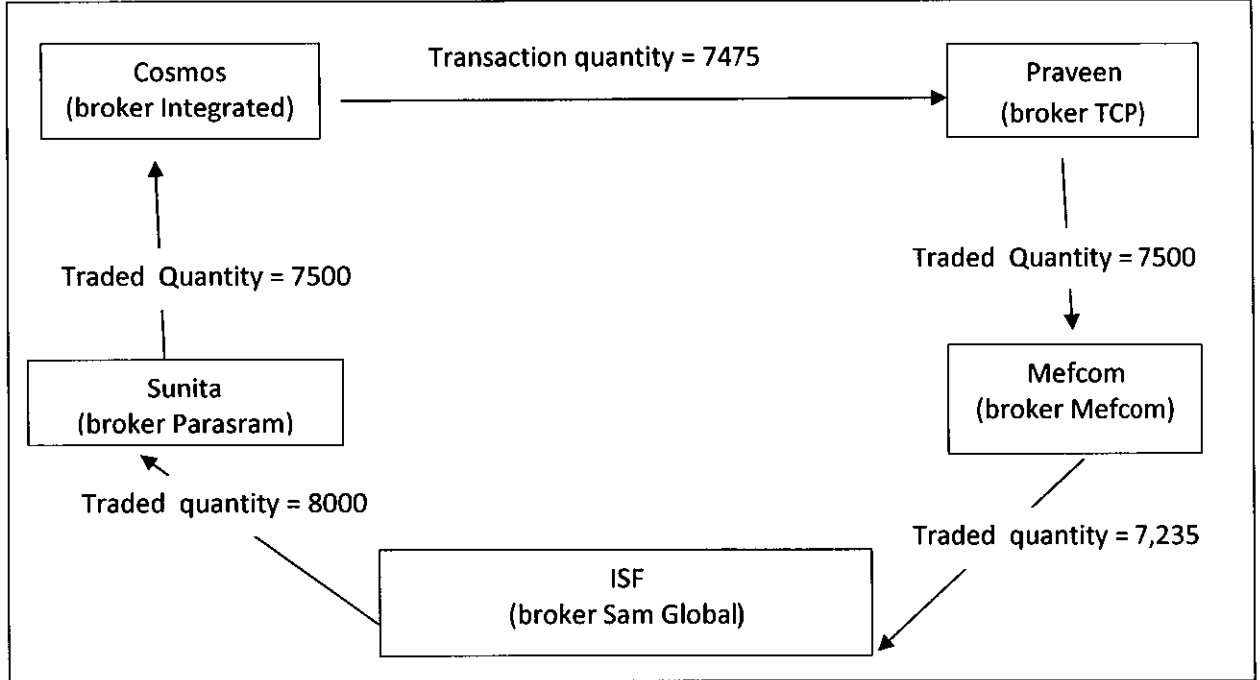
9.3.1 During the Investigation Period, 24,154 trades in Gangotri scrip were executed for a total traded quantity of 89,41,975 shares at BSE. Out of these, 430 trades for 15,60,914 shares (17.45% of the total traded quantity) were synchronized i.e. the difference between buy order time and sell order time was less than 60 seconds and there was no difference between buy order rate and sell order rate as well as there was no difference between buy order quantity and sell order quantity. Out of a total of 420 synchronized trades (buy & sell) by Vishvas Group for 24,52,618 shares, ISF indulged in 56 synchronized trades for 3,08,340 shares. ISF bought a total of 3,89,748 shares during the investigation period out of which 1,71,623 shares were synchronised with other members of the Vishvas Group. ISF sold a total of 3,38,795 shares during the investigation period, out of which 1,36,717 shares were synchronized with other members of the Vishvas Group. The DA report cited one such instance of synchronized trades and reversal of trades by ISF with other members of Vishvas Group on April 28, 2006, wherein ISF bought 10,000 shares of Gangotri at the rate of ₹58.25 from Purshottam at 10:31:08. The buy order was placed by ISF at 10:30:57 at the rate of ₹58.25 for 10,000 shares and the sell order was placed by Purshottam at 10:31:07 at the rate of ₹58.25 for 10,000 shares. The order time difference was 10 seconds. ISF again sold 9,998 Gangotri shares back to Purshottam at the rate of ₹58.45 at 10:48:10 i.e. the trade was reversed within 20 minutes. In the reversal trade the buy order was placed by Purshottam at 10:48:17 at the rate of ₹58.45 for 10,000 shares and the sell order was placed by ISF at 10:47:51 at the rate of ₹58.45 for 10,000 shares. The order time difference was 26 seconds.

9.3.2 The DA observed that during the Investigation Period, circular trading among Vishvas Group was observed from April 21, 2006 till May 31, 2006. One of the instances



of circular trading observed on April 24, 2006 among the group was depicted in the DA Report as under:

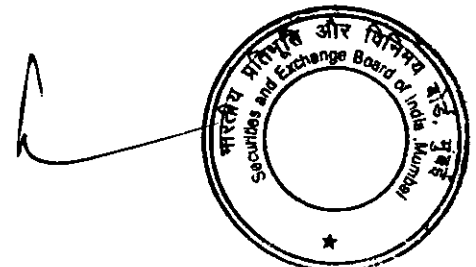
Circular Pattern Observed on April 24, 2006 among the group is as under :



Thus the DA found that nine members of the Vishvas Group including ISF were involved in 2138 instances of circular trading on 29 trading days out of 37 trading days during investigation period and created artificial volume of 26,90,184 shares (30.08% of total traded quantity) by buying and selling among themselves. Quantum of shares forming part of the aforesaid circular trades are as under:-

TABLE 4

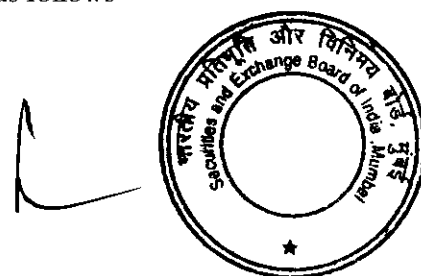
Circular Trade	Sellers							
Buyers	Cosmo	Sunita	Master	Mefcom	Purshottam	ISF	Praveen	Grand Total
VPL	10000	8000	00	00	54509	6000	19597	98106
Avisha	00	00	00	00	50000	00	00	50000
Cosmo	5672	43875	00	59535	259186	7000	49152	424420
Sunita	38031	00	00	43901	82808	94132	29928	288800
Master	00	00	00	10000	13399	00	4000	27399
Mefcom	9500	36059	00	00	180381	45579	52274	323793
Purshottam	72446	150814	8386	108126	65025	124694	187160	716651
ISF	35602	19965	10000	21041	215666	00	38990	341264
Praveen	61559	29674	00	32044	279473	17001	00	419751
Grand Total	232810	288387	18386	274647	1200447	294406	381101	2690184



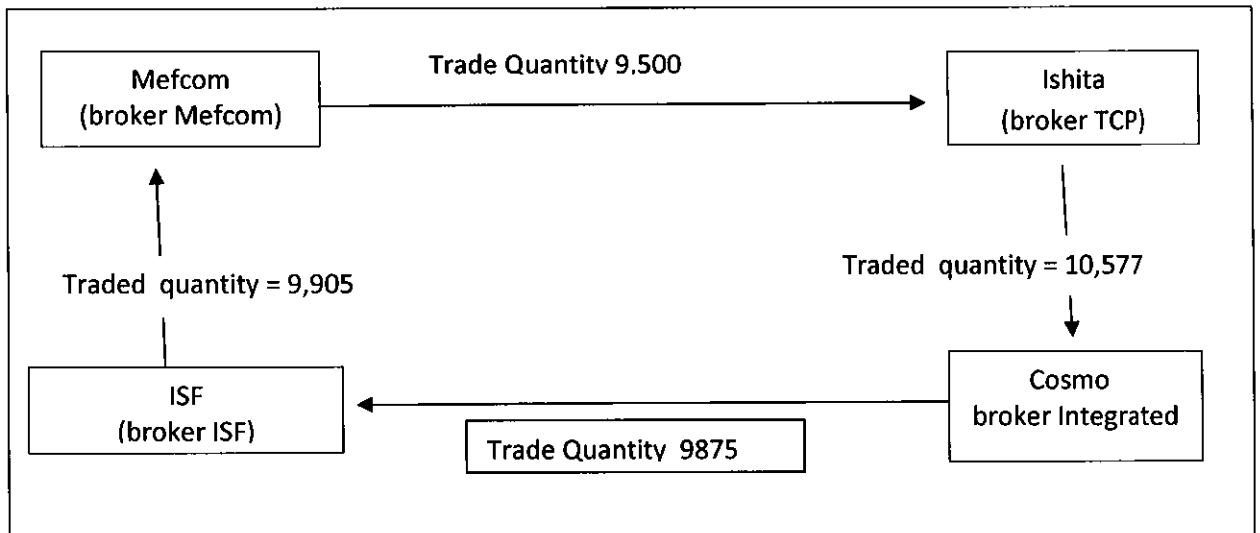
9.4 Trades on NSE and manipulation of volumes: Total traded volume of the scrip of Gangotri on NSE during the investigation period was 68,16,750 shares. During the investigation period six members of the Vishvas Group including ISF held a gross buy position in the Gangotri scrip with total contribution of 56.56% (38,55,920 shares) and six members of Vishvas Group including ISF held gross sell position with total contribution of 51.07% (34,81,580 shares). ISF had bought 4,53,396 shares and sold 3,68,574 shares. Out of the 37 trading days during the investigation period, on 17 days ISF had bought & sold the shares of Gangotri. It is observed that on 8 days, the net position of the Noticee was zero.

9.4.1 During the Investigation Period, there were 21,451 trades for a traded quantity of 68,16,750 shares of the Gangotri scrip at NSE. Out of these, 495 trades for 14,48,679 shares (21.25% of the total traded quantity) were synchronized trades. Out of a total of 4, 53, 396 shares bought by ISF on NSE during the investigation period, 1, 61, 362 shares were synchronised with other members of the Vishwas Group. Out of a total of 3,68,574 shares sold by ISF on NSE during the investigation period, 1,33,759 shares were synchronized with five other members of the Vishwas Group. Out of 624 synchronized trades (buy & sell) executed by the Vishvas Group for 24,03,502 shares, ISF executed 65 synchronized trades for 2,95,121 shares. One of the instances of the synchronized trade and reversal of trade by ISF with other members of Vishvas Group was on May 02, 2006 when ISF sold 9,925 shares of Gangotri at the rate of ₹62.85 to Cosmo at 10:15:48. The sell order was placed by ISF at 10:15:31 at the rate of ₹62.85 for 10,000 shares and the buy order was placed by Cosmo at 10:15:48 at the rate of ₹62.85 for 10,000 shares. The order time difference was 17 seconds. ISF again bought 9,900 Gangotri shares from Cosmo at the rate of ₹ 63.70 at 10:28:24 i.e. the trade was reversed within 15 minutes. In the reversal trade the buy order was placed by ISF at 10:28:24 at the rate of ₹63.70 for 10,000 shares and the sell order was placed by Cosmo at 10:28:19 at the rate of ₹63.70 for 10,000 shares. The order time difference was 5 seconds.

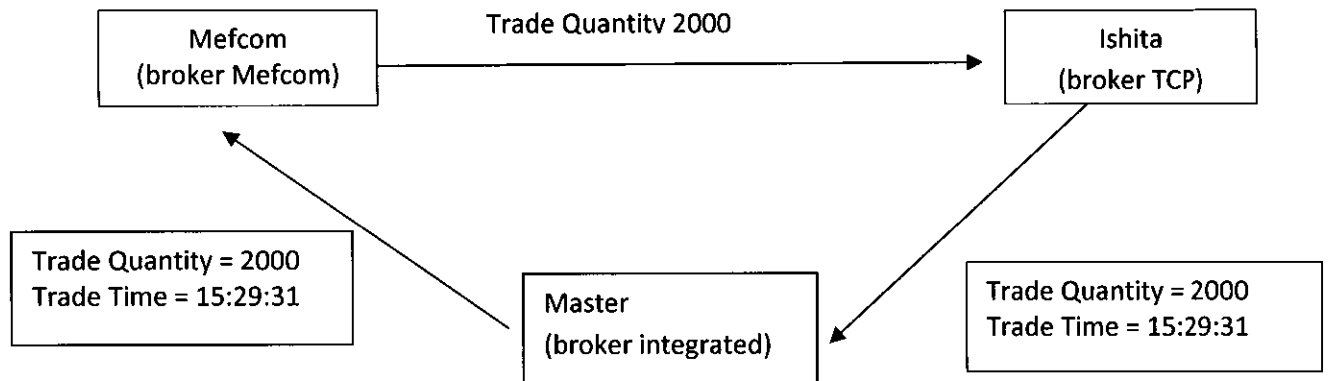
9.4.2 The DA observed that within the Investigation Period circular trading among members of the Vishvas Group was observed from April 21, 2006 till May 31, 2006. Some of the instances of circular trading noted were as follows-



Circular pattern observed on April 25, 2006 among the group is as under:



Circular pattern observed on May 30, 2006 among the group is as under:

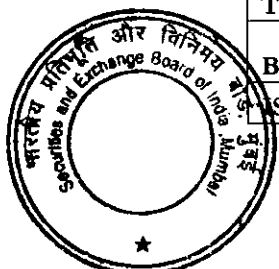


Thus the DA found that seven members of Vishvas Group namely Cosmo, Master, Ishita, VSL, Quantum, Mefcom and ISF were involved in 2419 instances of circular trades on 29 trading days out of 37 trading days during investigation period and created artificial volume of 23,56,185 shares (34.56% of total market volume) by buying and selling among themselves.

Details of circular trades among the seven members of Vishvas Group were noted as under:-

TABLE 5

Circular Trades	Sellers							Grand Total
	ISF	Mefcom	VSL	Cosmo	Ishita	Master	Quantum	
Buyers	ISF	625	110961	6552	68158	157108	00	33458
								376862



Circular Trades	Sellers							
Buyers	ISF	Mefcom	VSL	Cosmo	Ishita	Master	Quantum	Grand Total
Mefcom	68254	550	5000	102992	231230	7040	100574	515640
VSL	26258	24142	497	100	5022	00	14980	70999
Cosmo	36925	123702	00	00	143512	00	27975	332114
Ishita	157329	188865	2570	183095	92185	29825	107776	761645
Master	2000	00	00	00	7841	00	00	9841
Quantum	2000	76917	48823	59751	101533	00	60	289084
Grand Total	293391	525137	63442	414096	738431	36865	284823	2356185

It was also observed that ISF had executed 20 self trades for 625 shares during investigation period.

9.5 Price Manipulation:

On BSE, nine members of Vishvas Group namely, Cosmo, Master, Purshottam, Mefcom, Praveen, Sunita, Avisha, VPL and ISF had cumulatively contributed ₹ 718.05 to positive LTP and ₹468.65 to Negative LTP. ISF had contributed ₹ 5.10 to total cumulative positive LTP and ₹ 3.05 to total cumulative negative LTP. Similarly, on NSE, seven members of Vishvas Group namely, Cosmo, Master, Ishita, Mefcom, VSL, Quantum and ISF had cumulatively contributed ₹489.05 and. ₹307.90 respectively, and ISF had contributed ₹8.8 to total positive LTP and ₹4.6 to total negative LTP.

10. In addition to the observations in the DA Report as discussed above, I have also examined some orders placed by ISF and trades executed by it in the Gangotri scrip, from the relevant Order log and Trade log (*copies of which had been provided to the noticee i.e. ISF vide the SCN dated January 06, 2014 issued by the DA*). The details of this additional examination are noted below:

10.1 Synchronised Trades: It is seen from the statements of transactions for the period between 21st April, 2006 and 30th May, 2006 that on certain days, repeated buy/sell orders were placed with negligible time difference of each other and the trades have also been synchronised with respect to quantity and price.

10.1.1 A table indicating some of such orders/trades placed on BSE , as extracted from the order logs/trade logs, is stated below:

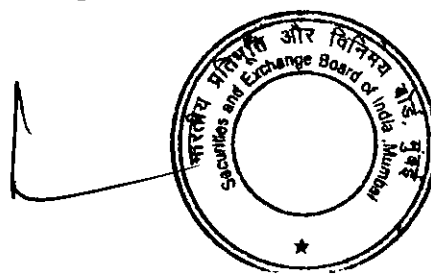
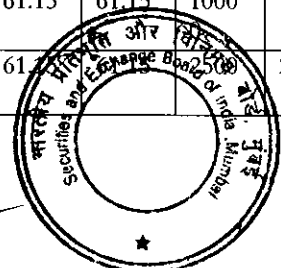
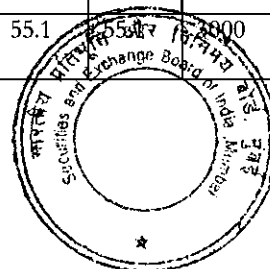


TABLE 6

Trade Date-2006	Trade Time	Trade Qty	Trade Price	Buy Client Name	Sell Client Name	Buy Order Time	Sell Order Time	Order Time Diff	Buy Order price	Sell Order price	Buy Order qty	Sell Order qty
21/04	10:27:19	10000	47.3	Sunita	ISF	10:27:19	10:27:16	0:00:02	47.3	47.3	10000	10000
21/04	10:27:35	5000	47.3	Sunita	ISF	10:27:32	10:27:34	0:00:02	47.3	47.3	5000	5000
24/04	10:39:35	7235	52.7	ISF	Mefcom	10:39:34	10:39:24	0:00:10	52.65	52.65	7500	7500
24/04	10:40:57	500	52.7	ISF	Sunita	10:40:53	10:40:52	0:00:01	52.7	52.7	500	500
25/04	15:27:46	4500	52	ISF	Cosmo	15:27:43	15:27:45	0:00:02	51.95	51.95	5000	5000
28/04	10:31:08	10000	58.3	ISF	Puru	10:30:57	10:31:07	0:00:10	58.25	58.25	10000	10000
28/04	10:48:18	9998	58.5	Puru	ISF	10:48:17	10:47:51	0:00:26	58.45	58.45	10000	10000
28/04	10:48:23	4998	58.5	Puru	ISF	10:48:23	10:47:59	0:00:24	58.45	58.45	5000	5000
29/04	11:26:29	5000	60	ISF	Puru	11:26:28	11:26:22	0:00:06	59.95	59.95	5000	5000
02/05	10:17:10	10000	62.8	ISF	Puru	10:17:09	10:17:08	0:00:02	62.75	62.75	10000	10000
02/05	10:22:11	9281	63.3	ISF	Puru	10:22:00	10:22:11	0:00:11	63.3	63.3	10000	10000
04/05	10:15:24	8500	67.5	ISF	Puru	10:15:16	10:15:10	0:00:06	67.45	67.45	10000	10000
09/05	10:29:26	4999	62.3	ISF	Puru	10:29:25	10:29:14	0:00:12	62.3	62.3	5000	5000
09/05	10:49:26	5102	63.5	ISF	Cosmo	10:49:18	10:49:26	0:00:08	63.45	63.45	10000	10000
09/05	14:50:16	6000	61.8	VP	ISF	14:50:15	14:50:03	0:00:11	61.8	61.8	6000	6000
10/05	10:49:42	4000	62.4	ISF	Puru	10:49:37	10:49:42	0:00:05	62.4	62.4	4000	4000
10/05	11:09:12	5000	61.8	ISF	Puru	11:09:11	11:08:59	0:00:12	61.75	61.75	5000	5000
10/05	11:09:33	3000	61.7	ISF	Puru	11:09:27	11:09:32	0:00:05	61.7	61.7	3000	3000
10/05	11:09:48	4000	61.8	ISF	Puru	11:09:47	11:09:40	0:00:07	61.75	61.75	4000	4000
10/05	14:58:18	9990	61.3	ISF	Praveen	14:58:17	14:58:17	0:00:01	61.25	61.25	10000	10000
10/05	10:07:45	4950	61.4	Puru	ISF	10:07:44	10:07:38	0:00:06	61.4	61.4	5000	5000
10/05	11:05:43	5000	62	Sunita	ISF	11:05:42	11:05:35	0:00:07	62	62	5000	5000
10/05	11:07:18	1975	61.8	Sunita	ISF	11:07:17	11:06:17	0:01:00	61.75	61.75	2000	2000
11/05	13:35:22	9531	61.2	ISF	Puru	13:35:21	13:35:19	0:00:02	61.15	61.15	1000	10000
11/05	13:35:51	2031	61.2	ISF	Puru	13:35:50	13:35:40	0:00:10	61.2	61.2	2500	2500



Trade Date-2006	Trade Time	Trade Qty	Trade Price	Buy Client Name	Sell Client Name	Buy Order Time	Sell Order Time	Order Time Diff	Buy Order price	Sell Order price	Buy Order qty	Sell Order qty
11/05	12:10:21	5000	61.3	Mefcom	ISF	12:10:20	12:10:11	0:00:09	61.25	61.25	5000	5000
11/05	12:59:28	1600	61.2	Sunita	ISF	12:59:27	12:59:23	0:00:05	61.2	61.2	2000	2000
11/05	13:02:20	1300	61.2	Sunita	ISF	13:02:18	13:02:19	0:00:00	61.15	61.15	1300	1300
11/05	13:59:26	9516	61.6	Sunita	ISF	13:59:25	13:59:02	0:00:23	61.6	61.6	10000	10000
11/05	13:59:56	2016	61.6	Sunita	ISF	13:59:55	13:59:33	0:00:23	61.6	61.6	2500	2500
12/05	13:55:16	9508	60.5	ISF	Cosmo	13:55:15	13:55:09	0:00:06	60.45	60.45	10000	10000
12/05	13:55:58	9909	60.6	ISF	Cosmo	13:55:58	13:55:52	0:00:06	60.55	60.55	10000	10000
12/05	15:10:09	9722	60.4	ISF	Puru	15:10:03	15:10:08	0:00:05	60.4	60.4	10000	10000
12/05	15:19:15	4907	59.9	Puru	ISF	15:19:14	15:19:10	0:00:04	59.85	59.85	5000	5000
16/05	10:17:37	5000	63.6	ISF	Praveen	10:17:36	10:17:27	0:00:09	63.55	63.55	5000	5000
16/05	10:17:52	5000	63.6	ISF	Praveen	10:17:51	10:17:48	0:00:03	63.6	63.6	5000	5000
16/05	10:19:30	10000	63.9	Sunita	ISF	10:19:29	10:19:28	0:00:00	63.9	63.9	10000	10000
17/05	10:10:41	4968	60.9	Puru	ISF	10:10:40	10:10:28	0:00:12	60.9	60.9	5000	5000
18/05	10:14:36	4905	55.5	ISF	Puru	10:14:32	10:14:35	0:00:04	55.45	55.45	5000	5000
18/05	10:15:12	4999	55.5	ISF	Puru	10:15:11	10:15:09	0:00:02	55.45	55.45	5000	5000
18/05	11:20:08	5000	55.3	ISF	Sunita	11:20:01	11:20:07	0:00:06	55.3	55.3	5000	5000
18/05	13:09:48	5000	55.4	Mefcom	ISF	13:09:47	13:09:42	0:00:06	55.35	55.35	5000	5000
18/05	14:48:07	5000	55.1	Mefcom	ISF	14:48:07	14:47:59	0:00:08	55.05	55.05	5000	5000
18/05	12:28:07	7000	55.3	VP	ISF	12:28:06	12:27:53	0:00:13	55.3	55.3	7000	7000
18/05	14:53:02	4990	55.1	Sunita	ISF	14:53:01	14:52:49	0:00:12	55.05	55.05	5000	5000
19/05	10:59:03	5000	55.4	ISF	Puru	10:59:02	10:58:52	0:00:10	55.4	55.4	5000	5000
19/05	11:38:23	4911	55.7	ISF	Mefcom	11:38:22	11:38:13	0:00:09	55.65	55.65	5000	5000
19/05	11:52:12	5000	55.5	ISF	Mefcom	11:52:11	11:52:07	0:00:04	55.5	55.5	5000	5000
19/05	10:56:38	5000	55.4	Mefcom	ISF	10:56:37	10:56:27	0:00:10	55.35	55.35	5000	5000
19/05	15:09:12	4999	55.1	Puru	ISF	15:09:12	15:09:04	0:00:07	55.05	55.05	5000	5000
19/05	15:10:20	3000	55.1	Puru	ISF	15:10:19	15:10:07	0:00:12	55.1	55.1	3000	3000



Trade Date-2006	Trade Time	Trade Qty	Trade Price	Buy Client Name	Sell Client Name	Buy Order Time	Sell Order Time	Order Time Diff	Buy Order price	Sell Order price	Buy Order qty	Sell Order qty
26/05	15:12:42	4000	46.5	Mefcom	ISF	15:12:41	15:12:35	0:00:06	46.45	46.45	4000	4000
26/05	15:05:37	2000	46.5	Puru	ISF	15:05:36	15:05:31	0:00:05	46.45	46.45	2000	2000
30/05	14:25:10	7000	45.7	Mefcom	ISF	14:25:09	14:24:54	0:00:16	45.7	45.7	7000	7000
30/05	14:26:42	1000	45.7	Mefcom	ISF	14:26:41	14:26:30	0:00:11	45.7	45.7	1000	1000
30/05	14:28:18	500	45.7	Mefcom	ISF	14:28:17	14:27:25	0:00:51	45.7	45.7	500	500

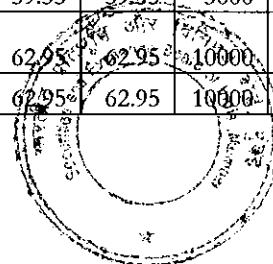
The table above indicates that **56** synchronised orders for 3,08,340 shares were placed by ISF within a span of **17** trading days between April 21, 2006 and May 30, 2006.

10.1.2 Similarly the table indicating some of such orders/trades placed on NSE, as extracted from the order logs/trade logs, is stated below:

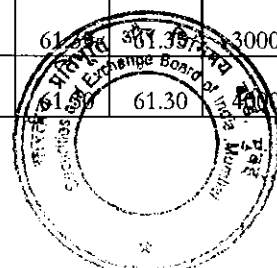
TABLE 7

Trade Date	Trade Time	Traded Quantity	Trade Price	Buy Client	Sell Client Name	Buy Order Time	Sell Order Time	Order Time Diff	Buy Order price	Sell Order price	Buy Order qty	Sell Order qty
24/04	10:07:03	8000	51.35	ISF	Ishita	10:07:03	10:06:58	00:00:05	51.35	51.35	8000	8000
24/04	10:56:28	8000	53.05	Mefcom	ISF	10:56:28	10:56:20	00:00:08	53.05	53.05	8000	8000
25/04	15:16:01	10000	52.85	ISF	Ishita	15:16:01	15:15:56	00:00:05	52.85	52.85	10000	10000
25/04	10:53:42	9905	58.30	Mefcom	ISF	10:53:15	10:52:56	00:00:19	58.30	58.30	10000	10000
28/04	10:15:07	10000	58.40	ISF	Ishita	10:14:53	10:15:07	00:00:14	58.40	58.40	10000	10000
28/04	10:46:32	5000	58.35	ISF	Ishita	10:46:32	10:46:29	00:00:03	58.35	58.35	5000	5000
28/04	15:17:05	3536	58.30	ISF	Ishita	15:17:05	15:17:02	00:00:03	58.30	58.30	5000	5000
28/04	10:18:55	10000	58.35	Mefcom	ISF	10:18:55	10:18:50	00:00:05	58.35	58.35	10000	10000
28/04	10:38:48	10000	58.35	Cosmo	ISF	10:38:48	10:38:40	00:00:08	58.35	58.35	10000	10000
29/04	10:51:20	3605	59.45	Ishita	ISF	10:51:19	10:51:13	00:00:06	59.45	59.45	4000	4000
29/04	10:51:49	3000	59.35	Ishita	ISF	10:51:49	10:51:44	00:00:05	59.35	59.35	3000	3000
2/05	10:13:01	1000	62.95	ISF	Ishita	10:13:01	10:12:59	00:00:02	62.95	62.95	10000	10000
2/05	10:13:01	1000	62.95	ISF	Ishita	10:13:01	10:12:59	00:00:02	62.95	62.95	10000	10000

R



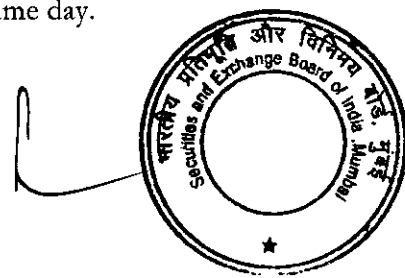
	1					1	9	2				
2/05	10:13:0 1	1000	62.95	ISF	Ishita	10:13:0 1	10:12:5 9	00:00:0 2	62.95	62.95	10000	10000
2/05	10:13:0 1	1000	62.95	ISF	Ishita	10:13:0 1	10:12:5 9	00:00:0 2	62.95	62.95	10000	10000
2/05	10:13:0 1	1000	62.95	ISF	Ishita	10:13:0 1	10:12:5 9	00:00:0 2	62.95	62.95	10000	10000
2/05	10:13:0 1	1000	62.95	ISF	Ishita	10:13:0 1	10:12:5 9	00:00:0 2	62.95	62.95	10000	10000
2/05	10:13:0 1	1000	62.95	ISF	Ishita	10:13:0 1	10:12:5 9	00:00:0 2	62.95	62.95	10000	10000
2/05	10:13:0 1	1000	62.95	ISF	Ishita	10:13:0 1	10:12:5 9	00:00:0 2	62.95	62.95	10000	10000
2/05	10:13:0 2	1000	62.95	ISF	Ishita	10:13:0 1	10:12:5 9	00:00:0 2	62.95	62.95	10000	10000
2/05	10:13:0 2	560	62.95	ISF	Ishita	10:13:0 1	10:12:5 9	00:00:0 2	62.95	62.95	10000	10000
2/05	10:28:2 4	9900	63.70	ISF	Cosmo	10:28:2 4	10:28:1 9	00:00:0 5	63.70	63.70	10000	10000
2/05	10:33:3 4	1333	63.85	ISF	Ishita	10:33:2 3	10:33:3 4	00:00:1 1	63.85	63.85	25000	25000
2/05	10:15:4 8	9925	62.85	Cosmo	ISF	10:15:4 8	10:15:3 1	00:00:1 7	62.85	62.85	10000	10000
2/05	10:25:0 0	9995	63.55	Mefco m	ISF	10:24:5 9	10:24:4 8	00:00:1 1	63.55	63.55	10000	10000
4/05	10:23:5 0	5000	67.40	ISF	Ishita	10:23:3 7	10:23:5 0	00:00:1 3	67.40	67.40	5000	5000
4/05	10:42:1 0	9900	68.15	ISF	Mefco m	10:42:1 0	10:42:0 0	00:00:1 0	68.15	68.15	10000	10000
4/05	10:47:2 7	19953	68.25	Ishita	ISF	10:47:2 7	10:47:2 7	00:00:0 0	68.25	68.25	20000	20000
4/05	10:47:5 8	4997	68.25	Ishita	ISF	10:47:5 8	10:47:5 4	00:00:0 4	68.25	68.25	5000	5000
9/05	10:33:4 9	4951	62.65	Ishita	ISF	10:33:4 9	10:33:3 9	00:00:1 0	62.65	62.65	5000	5000
9/05	15:18:1 2	7938	60.50	Ishita	ISF	15:18:1 2	15:18:0 2	00:00:1 0	60.50	60.50	10000	10000
10/05	10:01:3 0	10000	61.35	ISF	Ishita	10:01:2 9	10:01:2 2	00:00:0 7	61.35	61.35	10000	10000
10/05	11:42:1 9	5000	62.20	ISF	Cosmo	11:42:1 3	11:42:1 9	00:00:0 6	62.20	62.20	5000	5000
10/05	11:42:3 6	5000	62.15	ISF	Cosmo	11:42:3 0	11:42:3 6	00:00:0 6	62.15	62.15	5000	5000
10/05	11:42:5 6	5000	62.10	ISF	Cosmo	11:42:4 7	11:42:5 6	00:00:0 9	62.10	62.10	5000	5000
10/05	11:43:1 5	4900	62.20	ISF	Cosmo	11:43:1 1	11:43:1 5	00:00:0 4	62.20	62.20	5000	5000
10/05	11:43:2 9	100	62.20	ISF	Cosmo	11:43:2 9	11:43:1 5	00:00:1 4	62.20	62.20	5000	5000
10/05	11:43:3 8	4900	62.20	ISF	Cosmo	11:43:2 9	11:43:3 8	00:00:0 9	62.20	62.20	5000	5000
10/05	11:45:4 7	10000	62.20	ISF	Mefco	11:45:4 7	11:45:4 6	00:00:0 1	62.20	62.20	10000	10000
10/05	12:50:0 2	1992	61.35	ISF	Vishva	12:50:0 2	12:49:4 5	00:00:1 7	61.35	61.35	2000	2000
10/05	13:28:2 8	5000	61.25	ISF	Quantu m	13:28:2 9	13:28:2 4	00:00:0 5	61.25	61.25	5000	5000
10/05	13:29:0 5	2000	61.30	ISF	Quantu m	13:29:0 5	13:28:4 7	00:00:1 8	61.30	61.30	2000	2000
10/05	13:29:1 6	3000	61.35	ISF	Quantu m	13:29:1 6	13:28:5 6	00:00:2 0	61.35	61.35	3000	3000
10/05	13:29:3 5	4000	61.30	ISF	Quantu m	13:29:3 4	13:29:3 5	00:00:0 1	61.30	61.30	4000	4000



10/05	13:29:50	1001	61.25	ISF	Quantum	13:29:50	13:29:47	00:00:03	61.25	61.25	2000	2000
10/05	13:30:56	3995	60.90	ISF	Quantum	13:30:56	13:30:49	00:00:07	60.90	60.90	4000	4000
10/05	09:58:40	9990	61.45	Mefco m	ISF	09:58:38	09:58:21	00:00:17	61.45	61.45	10000	10000
11/05	11:38:53	1395	61.20	ISF	Ishita	11:38:53	11:38:47	00:00:06	61.20	61.20	1500	1500
11/05	13:50:45	400	61.15	ISF	Ishita	13:50:45	13:50:33	00:00:12	61.15	61.15	5000	5000
11/05	13:50:45	4500	61.15	ISF	Ishita	13:50:45	13:50:33	00:00:12	61.15	61.15	5000	5000
11/05	14:09:14	2500	61.35	ISF	Cosmo	14:09:14	14:09:07	00:00:07	61.35	61.35	2500	2500
11/05	11:29:19	500	60.95	Cosmo	ISF	11:29:19	11:29:14	00:00:05	60.95	60.95	500	500
11/05	11:39:41	2000	61.15	Cosmo	ISF	11:39:38	11:39:41	00:00:03	61.15	61.15	2000	2000
11/05	11:39:57	500	61.15	Cosmo	ISF	11:39:57	11:39:52	00:00:05	61.15	61.15	500	500
26/05	15:06:50	4950	46.90	ISF	Mefco m	15:06:50	15:06:31	00:00:19	46.90	46.90	5000	5000
29/05	15:07:32	5000	45.40	Mefco m	ISF	15:07:32	15:07:21	00:00:11	45.40	45.40	5000	5000
30/05	14:25:38	7000	45.55	ISF	Mefco m	14:25:25	14:25:38	00:00:13	45.55	45.55	7000	7000
30/05	14:26:59	1000	45.55	ISF	Mefco m	14:26:56	14:26:58	00:00:02	45.55	45.55	1000	1000
30/05	14:28:43	500	45.55	ISF	Mefco m	14:28:43	14:28:30	00:00:13	45.55	45.55	500	500
30/05	15:28:29	2000	45.40	ISF	Mefco m	15:28:29	15:28:24	00:00:05	45.40	45.40	2000	2000
30/05	15:29:11	2000	45.40	Master	ISF	15:29:11	15:29:02	00:00:09	45.40	45.40	2000	2000
31/05	11:56:02	1000	44.60	Quantum	ISF	11:56:02	11:55:27	00:00:35	44.60	44.60	1000	1000
31/05	12:40:37	500	44.65	Mefco m	ISF	12:40:37	12:40:21	00:00:16	44.65	44.65	500	500
31/05	13:57:24	2500	44.65	Cosmo	ISF	13:57:24	13:56:56	00:00:28	44.65	44.65	2500	2500
31/05	14:23:43	2500	44.90	Cosmo	ISF	14:23:43	14:23:37	00:00:06	44.90	44.90	2500	2500
31/05	15:02:59	5000	45.40	Cosmo	ISF	15:02:59	15:02:53	00:00:06	45.40	45.40	5000	5000

The above table reveals that ISF indulged in **65** synchronised trades for **2, 95, 121** shares with other members of the Vishvas Group during a period of **12 trading days** between April 24 and May 31 of 2016.

10.2 Circular Trades Analysis: It was observed that on certain days, whatever quantity of shares were bought by ISF, from other Vishvas Group entities, were sold back to Vishvas Group entities on the same day.



10.2.1 Instances of circular trades done on BSE may be observed from the below table:

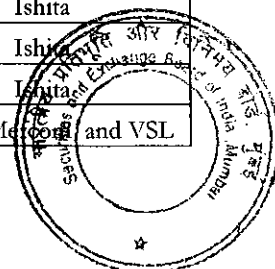
TABLE 8

Date	Buy Qty by ISF	Seller Name	Sell Qty by ISF	Buyer Name
21/04/2006	15,546	Purshottam	15,000	Sunita
24/04/2006	19,000	Purshottam , Sunita , Cosmo and Mefcom	18,000	Purshottam, Sunita
25/04/2006	12,000	Sunita , Cosmo	7,500	Purshottam , Mefcom
28/04/2006	25,000	Purshottam	24,898	Purshottam
02/05/2006	42,057	Purshottam , Cosmo and Mefcom	10,000	Purshottam
09/05/2006	13,102	Purshottam , Cosmo	25,696	Purshottam and VPL
10/05/2006	33,940	Purshottam and Praveen	32,083	Purshottam , Sunita
11/05/2006	48,531	Purshottam and Praveen	31,750	Purshottam , Mefcom , Praveen and Sunita
12/05/2006	30,822	Purshottam , Cosmo	29,700	Purshottam , Praveen and Sunita
16/05/2006	10,000	Praveen	15,800	Mefcom and Sunita
17/05/2006	10,000	Master Finlease Ltd	9,437	Purshottam
18/05/2006	21,871	Purshottam and Sunita	22,000	Purshottam , Sunita , Cosmo and Mefcom
19/05/2006	19,861	Purshottam and Mefcom	25,041	Purshottam and Mefcom
	3,01,730		2,66,905	

10.2.2. Similarly, instances of circular trades on NSE are observed from the following table:

TABLE 9

Date	Buy Qty by ISF	seller Name	Sell Qty by ISF	Buyer Name
21-Apr-06	30,000	Cosmo , Ishita and Mefcom	22,452	Ishita and Mefcom
24-Apr-06	8,000	Ishita	8,000	Mefcom
25-Apr-06	35,969	Cosmo , Ishita and Mefcom	26,159	Ishita and Mefcom
27-Apr-06	1,046	Cosmo and VSL	4,912	Ishita
28-Apr-06	18,536	Ishita	20,000	Cosmo and Mefcom
29-Apr-06	8,392	Ishita	10,000	Ishita
2-May-06	39,243	Cosmo and Ishita	19,925	Cosmo , Ishita and Mefcom
3-May-06	9,998	Ishita	2,805	Ishita
4-May-06	59,886	Ishita and Mefcom	29,450	Ishita
9-May-06	14,409	Ishita	13,789	Ishita
10-May-06	76,394	Cosmo , Ishita , Mefcom , VSL and	72,359	Ishita , Mefcom and VSL

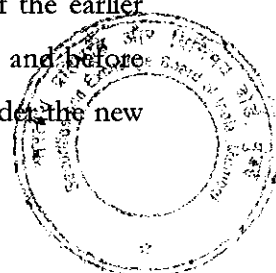


		Quantum		
11-May-06	14,440	Cosmo and Ishita	30,561	Cosmo and Ishita
26-May-06	23,096	Mefcom and Quantum	6,620	Mefcom
29-May-06	13,688	Cosmo , Mefcom and Quantum	11,234	Mefcom
30-May-06	10,500	Mefcom	2,000	Master Finlease Ltd
31-May-06	12,640	Cosmo and Mefcom	12,500	Cosmo , Mefcom and Quantum
Grand Total	3,76,237		2,92,766	

11. It was observed during investigation that the day from when members of the Vishvas Group started trading, the average trading volume of the scrip at BSE / NSE had gone up significantly from 70,713/68,005 shares (during April 07, 2006 to April 20, 2006) to 3,38,391/2,13,738 shares (during April 21, 2006 to May 05, 2006) and 2,58,554/2,17,866 shares (during May 08, 2006 to May 31, 2006). Similarly price of the scrip in BSE/NSE increased from ₹43 / ₹41.25 on April 19, 2006, touched a high of ₹70.95 / ₹71.05 on May 05, 2006 and then decreased to ₹44.35 / ₹45.40 on May 31, 2006 within a period of one and half months.

12. Summary of the written and oral submissions made by ISF are as follows:

- (i) Legally, resorting to proceedings under section 12(3) of the SEBI Act is incorrect since ISF was functioning in the capacity of a client and not as a broker/registered intermediary.
- (ii) The burden of proof lies on SEBI to prove allegation of fraud. The allegation of fraud requires a high degree of proof and the alleged fraudulent activity must be specific in nature.
- (iii) The charge/allegation commences with the premise that ISF is part of the Vishvas Group, whereas this should be the conclusion. The alleged off-market transfers between ISF and other entities were done after the period of investigation. No tangible proof has been provided to demonstrate connection of ISF with the members of the 'Vishvas group' except for the allegation of synchronized trades. Therefore a circular reasoning is adopted by SEBI.
- (iv) The circular trades shown in the SCN/Enquiry Report are not sequential and do not demonstrate circular transaction. The market was thin and illiquid. Therefore transactions by the few investors/brokers were bound to match at some point of time. Merely because ISF was part of the top 10 brokers engaged in trading in Gangotri scrip cannot lead to the inference that ISF was in cahoots with the other traders.
- (v) The self trades alleged to have been done by ISF were actually erroneous trades which were reversed. In any case the quantum of such trades are too trivial or insignificant.
- (vi) Mr. Khemka, the current promoter of the company purchased the stake of the earlier promoters of the company in 2011, i.e. much after the alleged violations took place and before SEBI commenced its proceedings. The clients and employees have also changed under the new



management. The question is: is it fair to punish the new management, employees and clients for the misdeeds of the previous management? Since there is alleged fraud, SEBI is obligated to lift the corporate veil and look at the management responsible for having committed the violations. Since the management had changed, it was even difficult for the current management to defend their case satisfactorily and produce documents.

13. I have considered the documents on record, the findings of the DA in his Report and the submissions made by ISF in this regard. I have identified the following issues as being relevant for my determination:

I. Whether ISF was involved in synchronised, circular and reversal of trades in the Gangotri scrip and thereby violated sections 12A (a), 12A(b) and 12A(c) of the SEBI Act, 1992 read with regulations 3(a), 3(b), 3(c), 3(d), 4(1), 4(2)(a), 4(2)(e) and 4(2)(g) of the PFUTP Regulations?

II. Whether ISF has violated regulation 7 read with Clause A of Schedule II of the Stock Brokers Regulations dealing with Code of Conduct for Stock Brokers?

III. Whether the recommendation of the Designated Authority submitted vide Report dated November 25, 2014 must be accepted?

14. The alleged violations need to be examined against the law relating to frauds in the securities market and that of conduct of brokers. Sections 12A(a), (b) and (c) of the SEBI Act, record the statutory prohibition against fraudulent and manipulative practices in the securities market. The provisions read as follows:

Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.

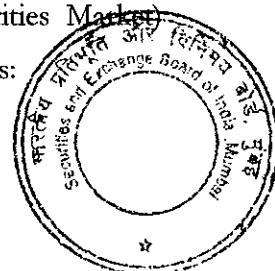
Section 12A. No person shall directly or indirectly—

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognised stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;

Further relevant provisions of the set of regulations dealing with frauds in the securities market i.e. the SEBI (Prohibition of Fraudulent and Unfair Trade Practices in Securities Market) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**"), are as follows:



"Regulation 3: - Prohibition of certain dealings in securities

3. No person shall directly or indirectly—

- (a) buy, sell or otherwise deal in securities in a fraudulent manner;
- (b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made thereunder;
- (c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;
- (d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made thereunder.

Regulation 4:-Prohibition of manipulative, fraudulent and unfair trade practices

- (1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.
- (2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:-
 - (a) indulging in an act which creates false or misleading appearance of trading in the securities market;
 - ...
 - (e) any act or omission amounting to manipulation of the price of a security;
 - ...
 - (g) entering into a transaction in securities without intention of performing it or without intention of change of ownership of such security;"

Regulation 7 (as it then read, prior to amendment in 2013) read with Clause A of Schedule II of the Stock Brokers Regulations dealing with Code of Conduct read as follows:

Stock brokers to abide by Code of Conduct.

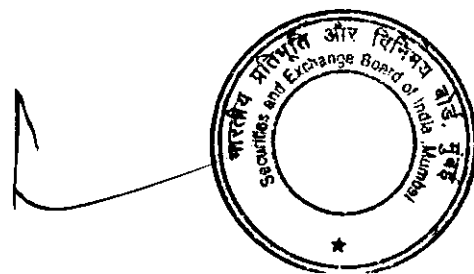
7. The stock broker holding a certificate shall at all times abide by the Code of Conduct as specified in Schedule II.

SCHEDULE II

CODE OF CONDUCT FOR STOCK BROKERS

A. General.

- 1) **Integrity:** A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.
- 2) **Exercise of due skill and care:** A stock-broker shall act with due skill, care and diligence in the conduct of all his business.
- 3) **Manipulation:** A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.
- 4) **Malpractices:** A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stockbroker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.



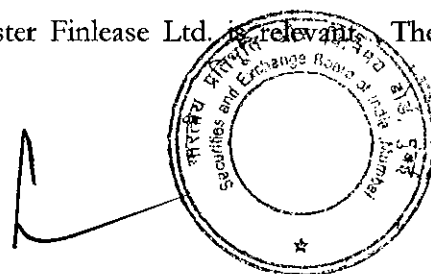
- 5) ***Compliance with statutory requirements:*** *A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.*

15. As is evident from the relevant extracts of section 12A of the SEBI Act and regulation 3 of the PFUTP Regulations, it is clear that the scope of the prohibition against fraudulent trades is wide enough to cover illegal synchronised/circular/reversal trades. It is also well accepted that synchronised trading on the anonymous trading platform of stock exchanges is not per se illegal. The circumstances surrounding synchronised transactions and the inferences drawn thereof provide guidance in arriving at a conclusion as to the legality of the transactions. This legal position was laid down by the Securities Appellate Tribunal (SAT) in the case of *Ketan Parekh v. SEBI* (Appeal No. 2/2004) in its order dated July 14, 2006, extracts of which are reproduced as follows:

“..... A synchronised transaction will, however, be illegal or violative of the Regulations if it is executed with a view to manipulate the market or if it results in circular trading or is dubious in nature and is executed with a view to avoid regulatory detection or does not involve change of beneficial ownership or is executed to create false volumes resulting in upsetting the market equilibrium. ... Whether a transaction has been executed with the intention to manipulate the market or defeat its mechanism will depend upon the intention of the parties which could be inferred from the attending circumstances because direct evidence in such cases may not be available. The nature of the transaction executed, the frequency with which such transactions are undertaken, the value of the transactions, whether they involve circular trading and whether there is real change of beneficial ownership, the conditions then prevailing in the market are some of the factors which go to show the intention of the parties. This list of factors, in the very nature of things, cannot be exhaustive. Any one factor may or may not be decisive and it is from the cumulative effect of these that an inference will have to be drawn.”

Subsequent decisions of the SAT have reinforced the aforesaid views albeit in different words and considering different circumstances. Notable amongst them include decisions in the cases of *HB Stockholdings Limited v. SEBI* (Appeal no. 114 of 2012), *SPJ Stock Brokers Pvt. Ltd. v. SEBI* (Appeal No. 52 of 2013) and *Kapil Chatrabhuj Bhuptani v. SEBI* (Appeal No. 95 of 2013). In the case of *SEBI v. Kishore Ajmera & Ors*, the Hon'ble Supreme Court by order dated February 23, 2016 held that knowledge of who the counter party is, whether client or broker, is not relevant for the purpose of proving that illegal synchronised trades had taken place. I am of the considered view that absence of direct proof of connection will not by itself imply absence of illegal synchronisation. Large scale of transactions and the repetitive nature of the same coupled with impact on volume and price on securities which are otherwise illiquid, all add to the inference that illegal synchronisation had in fact taken place.

16. While assessing the role of ISF in the trading of Gangotri scrip, the reference to ISF's role made in SAT order dated October 21, 2016 in the case of Master Finlease Ltd. is relevant. The relevant extracts of SAT order is reproduced below:



"7. Apart from the above, the A.O. has recorded a finding that in respect of several trades executed by and between appellant and Vishvas Group of entities, the difference between buy order time and sell order time was less than 60 seconds and there was no difference between buy order rate and sell order rate as well as there was no difference between buy order quantity and sell order quantity. Finding of fact recorded in the impugned order relating to the synchronised trades of the appellant with the Vishvas group entities are as follows:-

a) Out of the total 20,500 shares of Gangotri bought by the appellant at NSE during the investigation period 5804 shares were synchronized with the members of Vishvas Group viz. Ishita Finstock Ltd. & ISF Securities Ltd.

...
8. Apart from the above, the Adjudicating Officer has clearly brought on record that the appellant had indulged in circular trades by recording the following:-

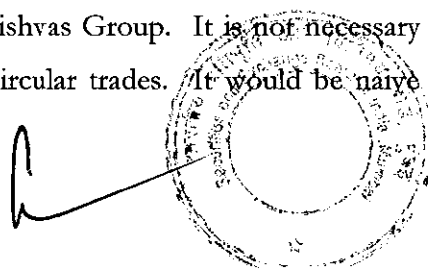
...
b) Out of 18,386 shares of Gangotri sold by the appellant at BSE during the investigation period, 18,386 shares were involved in circular trading with the other members of the Vishvas Group i.e. Purushtam and ISF Securities Ltd ('ISF' for short).

....
In the present case, the Adjudicating Officer has not only established the connection of the appellant with the Vishvas Group but also demonstrated that the trading pattern among themselves resulted in synchronized trades and circular trades which were in violation of the PFUTP Regulations."

(emphasis supplied)

Accordingly SAT upheld the finding of the Adjudicating Officer in the case, that the appellant i.e. Master Finlease Ltd. had violated provisions of sections 12A(a), 12A(b), 12A(c) of the SEBI Act and regulations 3(a), 3(b), 3(c), 3(d), 4(1), 4(2)(a) & 4(2)(e) of the PFUTP Regulations.

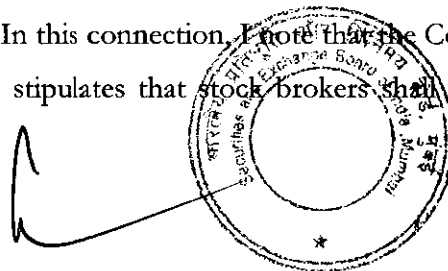
17. The finding of the Appellate Tribunal against Master Finlease involving ISF on the other side of the synchronised trades and identifying ISF to be a part of the Vishvas Group involved in the illegal synchronised and circular trades leaves no room for me to arrive at a different conclusion based on the same set of facts in the instant case. Nonetheless, I have examined the documents on record including the order logs and trade logs, and cannot but agree with the views expressed in related matters before the Adjudicating Officers as well as by the Hon'ble SAT. The data extracted in Table 6 above in particular brings out that 56 synchronised trades were executed by ISF with other Vishvas group members on BSE within a span of 17 trading days; and 65 synchronised trades were executed by ISF with other Vishvas Group members on NSE within a span of 12 trading days. On BSE on the 10th of May, for instance, there were 8 occasions of synchronisation of trades of ISF between 10:49:37 and 11:07:17. Within this time span, ISF placed 5 buy orders and 3 sell orders which got matched on the system. Similar instances are clear from a perusal of the extracts at Table 7. Similarly, the extracted data in Tables 8 and 9, bring out circular transactions between members of the Vishvas Group. It is not necessary to establish a perfect sequence of transactions for proving circular trades. It would be naive to



expect that persons acting in connivance with the object of executing fraudulent transactions, would function in a simplistic manner. The repeated instances of circular trading could not have taken place without the active abetment of the parties concerned, and they bear sufficient evidence leading to the inference that illegal synchronisation of trades and circular trading had infact taken place during the investigation period in the Gangotri scrip. The self trades executed by ISF though insignificant in number are seen in the context of the larger role of ISF in executing synchronised and circular trades. Viewing these data in totality, I am inclined to agree with the conclusion of the DA report that the trades by the Vishvas Group had impacted the volumes and prices of the Gangotri scrip both on BSE and NSE, which otherwise was found to be illiquid in nature. Further, individual trades by members of the Vishvas group cannot be viewed in isolation from the contribution of all members. Therefore ISF's individual contribution to synchronised and circular trades, even if lesser than some other members of the group, is significant enough for the purpose of reaching the aforesaid conclusion. The active role of ISF on both BSE and NSE, in its proprietary capacity, and instances of repeated transactions lead to a preponderance of probability that ISF had violated section 12A (a), (b) and (c) of the SEBI Act read with regulations 3(a), 3(b), 3(c), 3(d), 4(1), 4(2)(a), 4(2)(e) and 4(2)(g) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.

18. The DA in his Report has also held that the Noticee by indulging in reversal, circular, self and synchronised trades created a misleading appearance of trading by artificial volumes and manipulated the price of the Gangotri scrip. Consequently, according to the DA Report, ISF is also liable for having violated the mandate of the Stock Brokers Regulations that requires brokers not to indulge in fraudulent transactions and for failing to maintain high standards of integrity, care and due diligence. Since I have already concluded above that ISF is liable for having indulged in manipulative, deceptive and fraudulent transactions in the securities market, the fact that ISF's actions are clearly in violation of the aforesaid provisions of the Stock Brokers Regulations needs no further elaboration. I find that ISF's actions fall foul of the high standards of good conduct mandated by the Stock Brokers Regulations, and accordingly violate regulation 7 read with Clause A of Schedule II of the Stock Brokers Regulations.

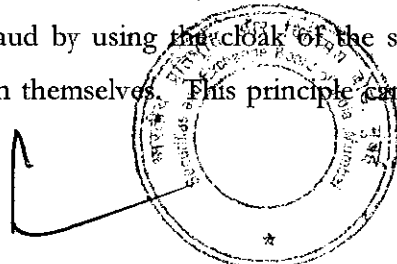
19. ISF had made a preliminary submission contending that since its transactions in the Gangotri scrip (*which are in question in these proceedings*) were proprietary in nature, action under the SEBI (Intermediaries) Regulations, 2008 was not appropriate. In this connection, I note that the Code of Conduct specified in the Stock Brokers Regulations stipulates that stock brokers shall not



indulge in fraudulent and manipulative practices in the securities market. Since I have already concluded that ISF has violated provisions of the PFUTP Regulations and the Stock Brokers Regulations, it follows that in terms of regulation 27 of the Stock Brokers Regulations ISF, being a registered stock broker, is liable for action under the SEBI (Intermediaries) Regulations, 2008. I also observe from the past track record of ISF that there have been a couple of instances of enforcement orders having been passed against it for having violated inter alia provisions of the PFUTP Regulations.

20. With regard to the recommendation made by the DA in his Report, there is a need to consider the mitigating circumstances as well. I note that the aforesaid violations took place more than ten years before, and the initiation of enquiry proceedings itself commenced eight years after the violation. Further, ISF has contended in its written and oral submissions that the company was under a different management at the time of the violation. The current promoter shareholders acquired substantial shares in the company in 2011 and 2012. As per the submissions, the current designated director i.e. Mr. Sunil Khemka, who is also the substantial shareholder had undertaken substantial due diligence before the acquisition and found nothing unusual in the records of the Noticee company i.e. ISF. No notice of investigation or enquiry was made known to the current management at the time of the acquisition. ISF has urged SEBI to 'pierce the corporate veil' and differentiate between the real perpetrators of fraud, if any, committed by ISF. These arguments have been advanced based on equity to avoid adverse impact on clients and on the current management. In support of their submissions regarding piercing of corporate veil, in addition to other case law on the principle of corporate veil, a specific order of SEBI dated December 12, 2002 against Mohan Kumar, was cited.

21. I have considered the submissions made by ISF in this regard along with the case law submitted. However I am not persuaded by the arguments on the change in management of the company. I note that the charge is not against a specific shareholder or director of the company. The structural nature of ISF as a body corporate also has not undergone any change. Violations are attributed to the corporate personality of ISF and will not be affected by the change in shareholding pattern of the entity. It was incumbent on the new shareholders to exercise due diligence while acquiring the shares of the company, particularly when the company was a registered stock broker which is subject to several regulatory compliances and which plays a significant role in the securities market. The principle of piercing the corporate veil was adopted by courts to fix liability on individuals perpetrating fraud by using the cloak of the separate corporate personality and avoiding criminal liability upon themselves. This principle cannot be



used by the present management of the Noticee to thwart enforcement actions initiated by the regulator and which entails a civil liability.

22. I am however, inclined to accept the submission that delay in initiation of the proceedings has caused prejudice to ISF since it does not have all the requisite documents and information before it to effectively defend itself against the allegations made against it. Incidentally I also note that ISF has been implicated for its proprietary transactions in the Gangotri scrip. Therefore, even though the DA has recommended suspension of ISF's certificate of registration as a stock broker for a period of four months, in my opinion acceptance of this recommendation may also lead to an unintended adverse impact on the retail clients of ISF.
23. Therefore, in exercise of powers conferred on me under section 12 (3) of the SEBI Act read with regulation 28 (2) read with regulation 27 of the SEBI (Intermediaries) Regulations, 2008, upon consideration of the facts and circumstances listed in this Order, applicable legal provisions and submissions of ISF, I hereby direct that the Noticee i.e. ISF Securities Ltd., stands prohibited from accepting any fresh clients for a period of six months from the date of this Order. ISF Securities Ltd. shall disclose the contents of these directions on its website(s) immediately.
24. A copy of this order shall be served on the recognised stock exchanges and on the Noticee i.e. ISF Securities Ltd., in accordance with regulation 30 of the SEBI (Intermediaries) Regulations, 2008.

Place: Mumbai

Date: April 13, 2017



G. MAHALINGAM

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA

