

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 Integrated Master Securities Limited (PAN: AAACI2074F)

-
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 with respect to Integrated Master Securities Limited (hereinafter referred to as "**IMSL**"/ "**Integrated**") which during the Investigation Period was found to have executed trades on behalf of its clients Cosmo Corporate Services Limited ("**Cosmo**") and Master Finlease Limited ("**Master**") in the scrip of Gangotri, on BSE and NSE. Therefore any reference in this Order to trades by Cosmo/Master may be read as trades executed by Cosmo/Master through IMSL.
 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 33.24% 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 (" Ishita ")	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 ")	NIL trades

7.	Avisha Credit Capital Ltd. (" Avisha ")	Shriram Insight Share Brokers Ltd. (" Shriram ")
8.	ISF Securities Ltd (" ISF ")	Sam Global Securities Ltd. at BSE and proprietary trades at NSE
9.	Quantum Global Securities and Leasing Company Limited (" Quantum ")	Proprietary trades
10.	Cosmo Corporate Services Limited (" Cosmo ")	Integrated Master Securities Pvt. Ltd. (" IMSL "/ " Integrated ")
11.	Master Finlease limited (" Master ")	
12.	Mefcom Securities Limited (" Mefcom ")	Mefcom Securities Limited (" Mefcom ")
13.	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 IMSL, Shri Jayanta Jash was appointed as the Designated Authority ("**DA**") by order dated November 8, 2013 under regulation 24 of SEBI (Intermediaries) Regulations, 2008 ("**Intermediaries Regulations**"). The DA, issued a show cause notice dated January 06, 2014 to IMSL. After completion of the proceedings, the DA submitted a Report dated July 31, 2014 in respect of IMSL (hereinafter referred to as "**the DA Report**"), wherein it was found that IMSL 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 IMSL for a period of four months.
7. After considering the DA Report, the Designated Member (DM) caused to issue a show cause notice dated September 30, 2015, under regulation 28(1) of the Intermediaries Regulations calling upon IMSL 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. IMSL filed its reply by letter dated December 05, 2015 following which an opportunity of personal hearing was also granted to the Noticee on May 26, 2016. Pursuant to IMSL's request, the hearing was rescheduled to October 05, 2016. Mr. Rohan Lav Kumar,

Advocate appeared on behalf of IMSL along with Mr. Aditya Bhansali, Consultant and Ms. Nirali Mehta, Company Secretary from Mindspright Legal and Mr. S.C. Khaneja, Director, Integrated Master Securities Pvt. Ltd. and made submissions. The Whole Time Member who had granted the opportunity of personal hearing to IMSL had subsequently demitted office. Consequently, a fresh opportunity of personal hearing to IMSL was granted on January 25, 2017, wherein Mr. Rohan Lav Kumar Shah, Advocate appeared on behalf of IMSL along with Mr. Amit Dey, Advocate from Mindspright Legal and Mr. S.C. Khaneja, Director, Integrated Master Securities Pvt. Ltd. and made submissions. The submissions were generally a reiteration of the written replies to the SCNs issued by the DA and the Designated Member/Whole Time Member.

9. Summary of facts and the related observations made by the DA in his Report in relation to the trades by IMSL 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 Master and Cosmo Corporate i.e. the clients of IMSL, the DA observed the following connections:

9.1.1 Master is connected to other members of the Vishvas group on the following basis:

- (i) Same address as Avisha Credit Capital & Vishvas Projects Ltd.
- (ii) Share holder in Vishvas Securities Ltd. (19.24% shareholding as on 30.09.2006)
- (iii) Off market transfers with Vishvas Securities limited.

9.1.2 Cosmo is connected to other members of the Vishvas group on the following basis:

- (i) Off Market Transfers with Master Finlease Ltd.
- (ii) Synchronized trades with Quantum Global Securities and leasing company Ltd., Ishita Finstock Ltd., Praveen Poddar, Sunita Gupta.

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	195380 3	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, Master contributed to 0.73% and 0.39% of shares bought and sold on BSE, respectively; and contributed to 0.52% and 0.32% of shares bought and sold on NSE, respectively. Cosmo contributed to 8.57% and 6.80% of shares bought and sold on BSE, respectively; and contributed to 10.35% and 13.11% of shares bought and sold on NSE, respectively.

9.3 Trades on BSE and manipulation of volumes: On BSE, during the investigation period, seven members of the Vishvas Group including Cosmo 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 Cosmo had a gross sell position with a total contribution of 52.5% (46,93,517 shares) of the total traded quantity. IMSL had bought 4,45,643 shares and 38,000 shares for its clients Cosmo and Master, respectively and sold 3,20,630 shares and 18,386 shares for its clients Cosmo and Master, respectively. Out of total 37 trading days during the Investigation Period, on 25 days and 4 days, IMSL had bought and sold the shares of Gangotri for its client Cosmo and Master respectively. It was also observed that on 9 days the net position of Cosmo was zero.

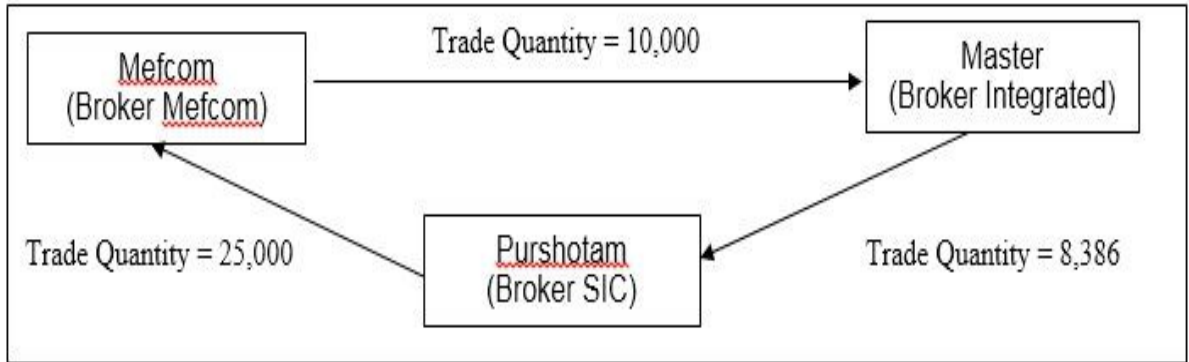
9.3.1 During the Investigation Period, 24,154 trades in Gangotri scrip were executed for a total traded quantity of 89,41,975 shares at BSE. Out of these, 430 trades for 15,60,914 shares (17.45% of the total traded quantity) were synchronized i.e. the difference between buy order time and sell order time was less than 60 seconds and there was no difference between the buy order rate and the sell order rate and between

the buy order quantity and the sell order quantity. Out of a total of 420 synchronized trades (buy & sell) by Vishvas Group for 24,52,618 shares, Cosmo indulged in 42 synchronized trades for 2,90,687 shares. 1,70,236 shares bought and 1,20,451 shares sold by IMSL for its client Cosmo were synchronized with the other members of the Vishvas Group. The DA report cited one such instance of synchronized trades and reversal of trades by Cosmo with other members of Vishvas Group on May 12, 2006. On the said date, a sell order was placed by Purshottam at 15:03:19 at the rate of ` 60.8 for 5,000 shares and a buy order was placed by Cosmo at 15:03:21 at the rate of ` 60.8 for 5,000 shares resulting in a purchase of 5000 shares by Comso from Purshottam at the rate of ` 60.8 at 15:03:21. The order time difference was 2 seconds. Subsequently, the sell order was placed by client Cosmo at 15:29:00 at the rate of ` 59.45 for 2,500 shares and a buy order was placed by Purshottam at 15:29:09 at the rate of ` 59.45 for 2,500 shares. Thereby Purshottam bought back the 2500 shares from Cosmo at the rate of ` 59.45 at 15:29:10 i.e. the trade was reversed within 30 minutes. The order time difference was 9 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. Instances of circular trading on BSE among the group, involving IMSL's clients as depicted in the DA Report are as under:

Circular Pattern observed on April 24, 2006 among the group involving **Cosmo** is as under :

Similarly a circular pattern of trading observed on April 27, 2006 among the group involving **Master** is as under:



Thus the DA found that on BSE nine members of the Vishvas Group including IMSL's clients i.e. Cosmo and Master, 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	Purshotam	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
Purshotam	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
--------------------	---------------	---------------	--------------	---------------	----------------	---------------	---------------	----------------

It was also observed that Cosmo had executed 2 self trades for 5672 shares during the Investigation Period.

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 IMSL 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 IMSL held gross sell position with total contribution of 51.07% (34,81,580 shares). IMSL had bought 4,01,520 shares & 20,500 shares for its clients Cosmo & Master, respectively and sold 4,71,184 shares & 1,11,400 shares for its clients Cosmo & Master, respectively. Out of total 37 trading days during the Investigation Period, on 27 days and 6 days, IMSL had bought and sold the shares of Gangotri for its client Cosmo and Master respectively. It was also observed that on 12 days and one day the net position of Cosmo and Master 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 624 synchronized trades by Vishvas Group for 24,03,502 shares, IMSL for its clients Cosmo and Master, indulged in 113 synchronized trades for 4,09,032 shares. 2,29,898 and 5,92,614 shares bought and sold, respectively, by IMSL for its client Cosmo were synchronized with other members of the Vishvas Group. Similarly, 5,804 and 7,000 shares bought and sold, respectively, by IMSL for its client Master were synchronized with other members of the Vishvas Group. The DA report cited one such instance of synchronized trades and reversal of trades by Cosmo with other members of Vishvas Group on May 02, 2006. On the said date, a sell order was placed by ISF at 10:15:31 at the rate of ` 62.85 for 10,000 shares and a buy order was placed by IMSL for its client Cosmo at 10:15:48 at the rate of `62.85 for 10,000 shares resulting in purchase of 9,925 shares by Cosmo at the rate of ` 62.85 from ISF at 10:15:48. The order time difference was 17 seconds. Subsequently, a sell order was

placed by IMSL for its client Cosmo at 10:28:19 at the rate of ` 63.70 for 10,000 shares and a buy order was placed by ISF at 10:28:24 at the rate of ` 63.70 for 10,000 shares. The order time difference was 5 seconds. This resulted in a reversal of trade whereby ISF bought back 9,900 shares from Cosmo @ ` 63.70 at 10:28:24, the trades thereby being reversed within 15 minutes of each other.

9.4.2 The DA observed that during the Investigation Period, circular trading among Vishvas Group was observed, on NSE, from April 21, 2006 till May 31, 2006. Some of the instances of circular trading noted, involving Cosmo and Master i.e. clients of IMSL, 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 the 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							
Buyers	ISF	Mefcom	VSL	Cosmo	Ishita	Master	Quantum	Grand Total
ISF	625	110961	6552	68158	157108	00	33458	376862
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

9.5 Price Manipulation:

- On BSE, nine members of Vishvas Group including Cosmo and Master had cumulatively contributed ` 718.05 to positive Last Traded Price (LTP) and `468.65 to Negative LTP. Individually, Cosmo had contributed ` 4.75 to total cumulative positive LTP and ` 1.70 to total cumulative negative LTP; and Master had contributed ` 0 to total cumulative positive LTP and ` 0.2 to total cumulative negative LTP.
- Similarly, on NSE, seven members of Vishvas Group including Cosmo and Master had cumulatively contributed `489.05 to positive LTP and ` 307.90 to negative LTP. Individually Cosmo had contributed ` 14.5 to total cumulative positive LTP and ` 6.7 to total cumulative negative LTP; and Master had contributed ` 0.6 to total cumulative positive LTP and ` 0.2 to total cumulative negative LTP.

10. In addition to the observations in the DA Report as discussed above, I have examined some orders placed by IMSL 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. IMSL, along with 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 synchronised orders/trades placed on **BSE**, involving IMSL, as extracted from the order logs/trade logs, is given below:

TABLE 6

Trade Date	Trade Time	Traded Quantity	Trade Price	Buy Client	Sell Client	Buy Order Time	Sell Order Time	Order Time Diff	Buy Order price	Sell Order price	Buy Order qty	Sell Order qty
21/04	10:51:20	15000	48.75	Cosmo	Mefcom	10:51:20	10:51:11	00:00:08	48.75	48.75	15000	15000
21/04	10:31:32	15000	47.6	Praveen	Cosmo	10:31:31	10:31:19	00:00:13	47.6	47.6	15000	15000
21/04	11:30:04	15000	49.05	Sunita	Cosmo	11:30:00	11:30:03	00:00:03	49.05	49.05	15000	15000
24/04	10:25:43	7500	52.25	Cosmo	Sunita	10:25:43	10:25:29	00:00:14	52.25	52.25	7500	7500
24/04	10:04:43	7475	51.15	Praveen	Cosmo	10:04:43	10:04:31	00:00:12	51.15	51.15	7500	7500
25/04	15:04:23	13124	53.65	Cosmo	PTM	15:04:19	15:04:22	00:00:04	53.65	53.65	15000	15000
25/04	10:39:10	4999	57.8	Praveen	Cosmo	10:39:09	10:38:56	00:00:13	57.8	57.8	5000	5000
25/04	15:26:43	2035	52.35	PTM	Cosmo	15:26:43	15:26:35	00:00:08	52.35	52.35	2500	2500
25/04	15:27:46	4500	51.95	ISF	Cosmo	15:27:43	15:27:45	00:00:02	51.95	51.95	5000	5000
28/04	10:30:38	25000	58.4	Cosmo	PTM	10:30:34	10:30:37	00:00:03	58.4	58.4	25000	25000
29/04	11:10:02	10000	59.8	Cosmo	PTM	11:10:02	11:09:50	00:00:12	59.8	59.8	10000	10000
09/05	11:07:36	6000	64.05	Cosmo	Praveen	11:07:35	11:07:25	00:00:10	64.05	64.05	6000	6000
09/05	13:47:30	10000	62.35	Cosmo	Sunita	13:47:29	13:47:19	00:00:11	62.35	62.35	10000	10000
09/05	10:49:26	5102	63.45	ISF	Cosmo	10:49:18	10:49:26	00:00:08	63.45	63.45	10000	10000
09/05	14:44:23	10000	61.95	VPL	Cosmo	14:44:23	14:43:51	00:00:31	61.95	61.95	10000	10000
10/05	11:40:20	4005	62.25	Cosmo	PTM	11:40:17	11:40:20	00:00:03	62.25	62.25	5000	5000
10/05	14:42:26	5000	60.7	Praveen	Cosmo	14:42:25	14:42:21	00:00:04	60.7	60.7	5000	5000
11/05	11:53:27	3903	61.3	Praveen	Cosmo	11:53:26	11:53:20	00:00:06	61.3	61.3	5000	5000
12/05	15:02:32	25000	60.75	Cosmo	PTM	15:02:31	15:02:26	00:00:05	60.75	60.75	25000	25000

12/05	15:03:21	5000	60.8	Cosmo	PTM	15:03:21	15:03:19	00:00:01	60.8	60.8	5000	5000
12/05	13:55:16	9508	60.45	ISF	Cosmo	13:55:15	13:55:09	00:00:06	60.45	60.45	10000	10000
12/05	13:55:58	9909	60.55	ISF	Cosmo	13:55:58	13:55:52	00:00:06	60.55	60.55	10000	10000
12/05	15:29:10	2500	59.45	PTM	Cosmo	15:29:09	15:29:00	00:00:09	59.45	59.45	2500	2500
15/05	10:16:54	9002	60.85	Cosmo	PTM	10:16:52	10:16:53	00:00:01	60.85	60.85	10000	10000
15/05	11:21:00	9653	62.35	PTM	Cosmo	11:20:59	11:20:50	00:00:09	62.35	62.35	10000	10000
16/05	10:44:55	4935	62.7	Cosmo	Pravee n	10:44:29	10:44:55	00:00:26	62.7	62.7	10000	10000
16/05	10:47:35	4965	62.7	Cosmo	Pravee n	10:47:34	10:47:28	00:00:06	62.7	62.7	5000	5000
17/05	11:35:36	3890	57.8	Cosmo	PTM	11:35:35	11:34:43	00:00:52	57.85	57.85	5000	5000
17/05	11:59:02	4867	57.8	Sunita	Cosmo	11:59:02	11:58:47	00:00:15	57.8	57.8	5000	5000
18/05	11:14:49	5000	55.3	Cosmo	Mefco m	11:14:49	11:14:41	00:00:08	55.3	55.3	5000	5000
18/05	12:28:07	7000	55.3	Cosmo	ISF	12:28:06	12:27:53	00:00:13	55.3	55.3	7000	7000
18/05	14:11:34	4811	55.3	Cosmo	Sunita	14:11:33	14:11:29	00:00:04	55.3	55.3	5000	5000
22/05	10:04:08	1949	55.45	Cosmo	PTM	10:04:07	10:04:06	00:00:01	55.45	55.45	2500	2500
24/05	10:25:58	1700	50.55	Cosmo	Mefco m	10:25:45	10:25:58	00:00:13	50.55	50.55	2000	2000
24/05	13:24:33	2500	49.75	Cosmo	PTM	13:24:32	13:24:26	00:00:06	49.75	49.75	2500	2500
24/05	10:25:24	2000	50.5	Mefco m	Cosmo	10:25:23	10:25:16	00:00:07	50.5	50.5	2000	2000
24/05	13:23:40	2500	49.85	Mefco m	Cosmo	13:23:39	13:23:34	00:00:05	49.85	49.85	2500	2500
31/05	10:30:56	2355	44.85	Cosmo	PTM	10:30:55	10:30:46	00:00:09	44.85	44.85	2500	2500
31/05	14:45:24	1500	44.4	Cosmo	Sunita	14:45:23	14:45:03	00:00:20	44.4	44.4	2000	2000
31/05	14:44:25	2000	44.5	Mefco m	Cosmo	14:44:24	14:44:15	00:00:09	44.5	44.5	2000	2000
31/05	9:59:38	2500	44.95	Sunita	Cosmo	09:59:37	09:59:25	00:00:12	44.95	44.95	2500	2500
31/05	12:47:06	2000	44.8	Sunita	Cosmo	12:47:06	12:46:53	00:00:12	44.8	44.8	2000	2000

The above table reveals that for its client Cosmo, IMSL indulged in **42** synchronised trades for **2,90,687** shares at **BSE** during a period of 16 trading days between April 21 and May 31 of 2006. On 12th and 31st of May, there were instances of synchronisation of upto 5 times in a day.

10.1.2 A table indicating synchronised orders/trades placed on **NSE**, involving IMSL, as extracted from the order logs/trade logs, is given below:

TABLE 7

Trade Date	Trade Time	Trad ed Quan tity	Trad ed Price	Buy client Name	Sell client Name	Buy Ord Time	Sell Ord Time	Order time diff	Buy Limit Price	Sell Limit Price	Buy Orig Vol	Sell Orig Vol
21/04	10:38:22	15000	48.45	Cosmo	Ishita	10:38:22	10:38:15	00:00:07	48.45	48.45	15000	15000
24/04	10:31:27	6975	52.45	Cosmo	Mefco m	10:31:27	10:31:24	00:00:03	52.45	52.45	8000	8000

24/04	10:03:21	800	51.20	Ishita	Cosmo	10:03:21	10:02:44	00:00:37	51.20	51.20	8000	8000
24/04	10:03:21	800	51.20	Ishita	Cosmo	10:03:21	10:02:44	00:00:37	51.20	51.20	8000	8000
24/04	10:03:21	800	51.20	Ishita	Cosmo	10:03:21	10:02:44	00:00:37	51.20	51.20	8000	8000
24/04	10:03:21	800	51.20	Ishita	Cosmo	10:03:21	10:02:44	00:00:37	51.20	51.20	8000	8000
24/04	10:03:21	800	51.20	Ishita	Cosmo	10:03:21	10:02:44	00:00:37	51.20	51.20	8000	8000
24/04	10:03:21	800	51.20	Ishita	Cosmo	10:03:21	10:02:44	00:00:37	51.20	51.20	8000	8000
24/04	10:03:21	800	51.20	Ishita	Cosmo	10:03:21	10:02:44	00:00:37	51.20	51.20	8000	8000
24/04	10:03:21	800	51.20	Ishita	Cosmo	10:03:21	10:02:44	00:00:37	51.20	51.20	8000	8000
24/04	10:03:21	800	51.20	Ishita	Cosmo	10:03:21	10:02:44	00:00:37	51.20	51.20	8000	8000
24/04	10:03:21	800	51.20	Ishita	Cosmo	10:03:21	10:02:44	00:00:37	51.20	51.20	8000	8000
24/04	10:03:21	300	51.20	Ishita	Cosmo	10:03:21	10:02:44	00:00:37	51.20	51.20	8000	8000
25/04	11:18:49	500	56.35	Cosmo	Ishita	11:18:49	11:18:46	00:00:03	56.35	56.35	5000	5000
25/04	11:18:49	500	56.35	Cosmo	Ishita	11:18:49	11:18:46	00:00:03	56.35	56.35	5000	5000
25/04	11:18:49	500	56.35	Cosmo	Ishita	11:18:49	11:18:46	00:00:03	56.35	56.35	5000	5000
25/04	11:18:49	2500	56.35	Cosmo	Ishita	11:18:49	11:18:46	00:00:03	56.35	56.35	5000	5000
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
28/04	15:18:38	1804	58.40	Master	Ishita	15:18:38	15:18:29	00:00:09	58.40	58.40	5000	5000
28/04	15:24:27	5000	57.95	Mefco m	Master	15:24:27	15:24:23	00:00:04	57.95	57.95	5000	5000
29/04	10:33:40	10000	60.50	Cosmo	Ishita	10:33:38	10:33:34	00:00:04	60.50	60.50	10000	10000
2/05	10:15:48	9925	62.85	Cosmo	ISF	10:15:48	10:15:31	00:00:17	62.85	62.85	10000	10000
2/05	10:28:24	9900	63.70	ISF	Cosmo	10:28:24	10:28:19	00:00:05	63.70	63.70	10000	10000
4/05	10:25:07	9500	67.75	Cosmo	Ishita	10:25:07	10:25:01	00:00:06	67.75	67.75	10000	10000
10/05	11:04:59	9000	61.85	Cosmo	Ishita	11:04:59	11:04:48	00:00:11	61.85	61.85	10000	10000
10/05	11:05:13	8925	61.90	Cosmo	Ishita	11:05:13	11:05:11	00:00:02	61.90	61.90	10000	10000
10/05	11:05:35	5000	61.85	Cosmo	Ishita	11:05:31	11:05:11	00:00:20	61.85	61.85	5000	5000
10/05	11:42:19	5000	62.20	ISF	Cosmo	11:42:13	11:42:19	00:00:06	62.20	62.20	5000	5000
10/05	11:42:36	5000	62.15	ISF	Cosmo	11:42:30	11:42:36	00:00:06	62.15	62.15	5000	5000
10/05	11:42:56	5000	62.10	ISF	Cosmo	11:42:47	11:42:56	00:00:09	62.10	62.10	5000	5000
10/05	11:43:15	4900	62.20	ISF	Cosmo	11:43:11	11:43:15	00:00:04	62.20	62.20	5000	5000
10/05	11:43:29	100	62.20	ISF	Cosmo	11:43:29	11:43:15	00:00:14	62.20	62.20	5000	5000
10/05	11:43:38	4900	62.20	ISF	Cosmo	11:43:29	11:43:3	00:00:09	62.20	62.20	5000	5000

							8					
10/05	14:37:18	9500	60.15	Mefco m	Cosmo	14:37:18	14:37:11	00:00:07	60.15	60.15	10000	10000
11/05	10:26:31	4782	61.65	Cosmo	Ishita	10:26:31	10:26:27	00:00:04	61.65	61.65	5000	5000
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	11:32:02	5000	61.25	Cosmo	Mefco m	11:32:02	11:31:57	00:00:05	61.25	61.25	5000	5000
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
11/05	11:45:44	9955	61.25	Cosmo	Mefco m	11:45:44	11:45:27	00:00:17	61.25	61.25	10000	10000
11/05	11:46:17	45	61.25	Cosmo	Mefco m	11:46:17	11:45:27	00:00:50	61.25	61.25	10000	10000
11/05	11:46:17	9940	61.25	Cosmo	Mefco m	11:46:17	11:46:16	00:00:01	61.25	61.25	10000	10000
11/05	13:54:53	9470	61.75	Cosmo	Ishita	13:54:53	13:54:47	00:00:06	61.75	61.75	10000	10000
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
12/05	10:08:41	1000 0	60.70	Cosmo	Mefco m	10:08:41	10:08:38	00:00:03	60.70	60.70	10000	10000
12/05	10:58:13	1000 0	61.25	Cosmo	Ishita	10:58:13	10:58:06	00:00:07	61.25	61.25	10000	10000
12/05	10:59:44	9980	61.25	Cosmo	Ishita	10:59:44	10:59:41	00:00:03	61.25	61.25	10000	10000
12/05	10:51:55	1000 0	60.95	Quantu m	Cosmo	10:51:55	10:51:42	00:00:13	60.95	60.95	10000	10000
12/05	11:37:01	9975	61.70	Quantu m	Cosmo	11:37:01	11:36:56	00:00:05	61.70	61.70	10000	10000
12/05	14:25:24	4625	60.35	Mefco m	Cosmo	14:25:17	14:25:24	00:00:07	60.35	60.35	5000	5000
12/05	14:26:07	500	60.35	Mefco m	Cosmo	14:26:07	14:25:58	00:00:09	60.35	60.35	5000	5000
12/05	14:26:07	500	60.35	Mefco m	Cosmo	14:26:07	14:25:58	00:00:09	60.35	60.35	5000	5000
12/05	14:26:07	500	60.35	Mefco m	Cosmo	14:26:07	14:25:58	00:00:09	60.35	60.35	5000	5000
12/05	14:26:07	500	60.35	Mefco m	Cosmo	14:26:07	14:25:58	00:00:09	60.35	60.35	5000	5000
12/05	14:26:07	500	60.35	Mefco m	Cosmo	14:26:07	14:25:58	00:00:09	60.35	60.35	5000	5000
12/05	14:26:07	500	60.35	Mefco m	Cosmo	14:26:07	14:25:58	00:00:09	60.35	60.35	5000	5000
12/05	14:26:07	500	60.35	Mefco m	Cosmo	14:26:07	14:25:58	00:00:09	60.35	60.35	5000	5000
12/05	14:26:07	500	60.35	Mefco m	Cosmo	14:26:07	14:25:58	00:00:09	60.35	60.35	5000	5000
12/05	14:26:07	500	60.35	Mefco m	Cosmo	14:26:07	14:25:58	00:00:09	60.35	60.35	5000	5000
12/05	14:26:07	125	60.35	Mefco m	Cosmo	14:26:07	14:25:58	00:00:09	60.35	60.35	5000	5000
12/05	14:31:54	2000	60.40	Master	Ishita	14:31:40	14:31:54	00:00:14	60.40	60.40	2000	2000
15/05	10:28:21	5000	60.90	Cosmo	Mefco m	10:28:21	10:27:57	00:00:24	60.90	60.90	5000	5000

[illegible]

				m			7					
22/05	10:23:00	900	54.70	Mefco m	Cosmo	10:23:00	10:22:5 7	00:00:03	54.70	54.70	10000	10000
23/05	15:05:01	5000	50.70	Cosmo	Ishita	15:05:01	15:05:0 1	00:00:00	50.70	50.70	5000	5000
23/05	13:49:02	4810	50.45	Ishita	Cosmo	13:49:02	13:49:0 2	00:00:00	50.45	50.45	5000	5000
23/05	14:34:51	5000	50.80	Mefco m	Cosmo	14:34:51	14:34:4 2	00:00:09	50.80	50.80	5000	5000
23/05	15:05:47	5000	50.85	Mefco m	Cosmo	15:05:47	15:05:4 1	00:00:06	50.85	50.85	5000	5000
23/05	15:27:08	4915	50.40	Ishita	Cosmo	15:27:08	15:27:0 6	00:00:02	50.40	50.40	5000	5000
24/05	10:38:21	5000	50.80	Cosmo	Mefco m	10:38:21	10:38:1 6	00:00:05	50.80	50.80	5000	5000
24/05	12:40:33	2999	50.80	Cosmo	Mefco m	12:40:33	12:40:3 3	00:00:00	50.80	50.80	3000	3000
24/05	12:40:50	1999	50.80	Cosmo	Mefco m	12:40:48	12:40:5 0	00:00:02	50.80	50.80	2000	2000
24/05	11:52:43	5000	51.55	Ishita	Cosmo	11:52:43	11:52:3 9	00:00:04	51.55	51.55	5000	5000
24/05	15:19:26	2500	48.90	Ishita	Cosmo	15:19:25	15:19:2 3	00:00:02	48.90	48.90	2500	2500
25/05	10:08:50	2028	47.50	Cosmo	Mefco m	10:08:50	10:08:2 6	00:00:24	47.50	47.50	5000	5000
25/05	10:05:40	5000	47.80	Quantu m	Cosmo	10:05:40	10:05:2 9	00:00:11	47.80	47.80	5000	5000
30/05	15:29:11	2000	45.40	Master	ISF	15:29:11	15:29:0 2	00:00:09	45.40	45.40	2000	2000
30/05	15:29:31	2000	45.35	Mefco m	Master	15:29:31	15:29:2 5	00:00:06	45.35	45.35	2000	2000
31/05	13:57:24	2500	44.65	Cosmo	ISF	13:57:24	13:56:5 6	00:00:28	44.65	44.65	2500	2500
31/05	14:23:43	2500	44.90	Cosmo	ISF	14:23:43	14:23:3 7	00:00:06	44.90	44.90	2500	2500
31/05	15:02:59	5000	45.40	Cosmo	ISF	15:02:59	15:02:5 3	00:00:06	45.40	45.40	5000	5000
31/05	13:55:56	2500	44.60	Mefco m	Cosmo	13:55:56	13:55:5 1	00:00:05	44.60	44.60	2500	2500
31/05	14:22:37	2500	44.95	Mefco m	Cosmo	14:22:37	14:22:2 9	00:00:08	44.95	44.95	2500	2500
31/05	14:52:57	3000	44.90	Mefco m	Cosmo	14:52:57	14:52:4 8	00:00:09	44.90	44.90	3000	3000
31/05	14:53:55	2000	44.90	Mefco m	Cosmo	14:53:55	14:53:4 7	00:00:08	44.90	44.90	2000	2000

The above table reveals that for its clients Cosmo and Master , IMSL indulged in **113** synchronised trades for **4,09,032** shares at **NSE** during a period of **20** trading days between April 21 and May 31 of 2006. From the table shown above, it is seen that on certain days, namely- on 24th of April and 11th, 12th, 17th , 18th, 22nd and 31st of May, the number of instances of intra -day synchronisation were substantial.

10.2 Circular Trades Analysis: It was observed that on certain days, whatever quantity of shares were bought by Cosmo/Master 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 Cosmo/Master	Seller Name	Sell Qty by Cosmo/Master	Buyer Name
21/04	29,852	Praveen , Mefcom	30,000	Praveen , Sunita
24/04	17,500	Sunita , Purshottam	11,399	Praveen , Purshottam, ISF
25/04	17,898	Purshottam	14,454	Praveen , Purshottam, ISF
26/04	8,375	Purshottam	15,929	Purshottam
27/04	23,360	Praveen , Purshottam, Mefcom	500	Purshottam
02/05	43,945	Purshottam, Mefcom , Cosmo	19,161	Purshottam, Cosmo, ISF
09/05	16,000	Praveen , Sunita	15,102	ISF , Vishvas Projects
10/05	5,000	Purshottam	5,000	Praveen
11/05	31,657	Purshottam	29,086	Purshottam. Praveen
12/05	30,000	Purshottam	25,601	Purshottam, ISF
15/05	20,399	Purshottam	10,000	Purshottam
16/05	27,509	Purshottam, Praveen	29,052	Purshottam, Mefcom
17/05	7,900	Purshottam	15,000	Purshottam, Sunita , ISF
18/05	26,821	Purshottam, Sunita , ISF and Mefcom	5,000	Sunita
24/05	4,500	Purshottam, Mefcom	4,500	Mefcom
25/05	5,131	Purshottam,Sunita	5,031	Purshottam,Sunita
26/05	8,400	Praveen , Sunita	8,400	Sunita , Purshottam
29/05	2,054	Sunita	1,702	Purshottam
31/05	9,857	Sunita , Mefcom , Purshottam	10,302	Sunita , Mefcom

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

TABLE 9

Date	Buy Qty by Cosmo/Master	Seller Name	Sell Qty by Cosmo/Master	Buyer Name
21/04	15,000	Ishita	14,875	ISF, Ishita
24/04	7,975	Ishita , Mefcom	7,500	Ishita
25/04	17,777	Ishita , Mefcom	18,063	ISF, Ishita
28/04	14,850	ISF, Ishita	39,900	Ishita , Mefcom
29/04	10,000	Ishita	13,250	Ishita , Mefcom
2/05	10,000	ISF, Ishita	10,000	ISF, Ishita
3/05	10,000	Ishita		
4/05	10,000	Ishita	10,297	Ishita , Mefcom
10/05	24,925	Ishita	34,500	ISF, Vishvas , Mefcom
11/05	58,223	ISF, Ishita , Mefcom	58,281	ISF, Ishita , Quantum
12/05	32,971	Ishita , Mefcom	42,165	Ishita , Quantum , Mefcom
15/05	7,500	Mefcom	7,400	Ishita

Date	Buy Qty by Cosmo/Master	Seller Name	Sell Qty by Cosmo/Master	Buyer Name
16/05	7,500	Ishita , Mefcom	7,500	Ishita
17/05	36,600	Ishita , Quantum , Mefcom	34,179	Ishita , Mefcom
18/05	14,875	Quantum , Mefcom	15,000	Ishita , Quantum , Mefcom
22/05	335	Mefcom	12,429	Mefcom
23/05	5,000	Ishita	19,995	Ishita , Mefcom
24/05	9,999	Mefcom	12,500	Ishita
25/05	9,163	Mefcom	12,035	Mefcom , Quantum
26/05	8,350	Mefcom , Quantum	12,162	Mefcom
29/05	5,910	Mefcom	7,455	Mefcom , Quantum , ISF
30/05	6,645	Mefcom , ISF	5,670	Mefcom , Quantum
31/05	15,304	Mefcom , Quantum , ISF	15,955	Mefcom , ISF
Grand Total	3,41,955		4,50,961	

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 IMSL are as follows:

- (i) The constituents, Master and Cosmo have been clients of IMSL since 2004 and 2002 respectively, and their activities did not give any reason for concern. They were never extended any credit facility / margin leverage and all trades executed by these two clients were duly settled. Monitoring measures were in place to ensure fair market transactions/ dealings by client(s) / constituents. The price at which orders placed on behalf of the clients were not significantly different from the LTP. The cumulative contribution of the clients to LTP was very negligible.
- (ii) Apart from Master and Cosmo, 11 other clients of IMSL traded on BSE and 2 other clients traded on NSE in the scrip of Gangotri.
- (iii) The client Master traded through IMSL on BSE only for four days. The trades of the said client resulted in 100% delivery on three days out of total four days of trading during the investigation period. It is only on one day that the client Master carried

out jobbing transactions for 3000 shares. Master traded through IMSL on NSE only on six days during the period of investigation, which comprises of 37 trading days.

- (iv) The learned SAT in the case of Kishore Ajmera vs. SEBI held that it must necessarily “allege and establish that the broker or the sub broker was aware of the counter party or his broker at the time when the trade was executed”. The judgment of Kishore Ajmera was upheld by the Hon’ble Supreme Court, which held that there was no material to hold either lack of vigilance or bonafides on the part of the broker. It has not been shown that any of the parties to the transactions had any common understanding. In order to establish synchronization, it is necessary to prove that two contracting parties had a meeting of minds. As a broker, IMSL's role was restricted and limited to executing the transaction only, and IMSL was unaware of the identity of the actual counter party client and counter party broker. There is no common address, no common directorship and not even an allegation of synchronized trading between Master and Cosmo.
- (v) In order for any trade to be circular trade, it is necessary that the order price, quantity and time of both the parties to trade should be exactly same and that the trades must be entered with the intention of raising or depressing the prices of securities, which is not so in the instant case.
- (vi) A dealer of IMSL inadvertently placed wrong trades on BSE and instead of cancelling the said orders, reverse orders were placed leading to the self trades. These trades did not lead to any price rise or fall and cannot be attributed to any artificial creation of volumes.
- (vii) BSE later developed self trade prevention check functionality in simulation environment mechanism. The Hon’ble Securities Appellate Tribunal (SAT) has tried to distinguish between solitary or few self trades. in the case of NM Lohia vs SEBI (Appeal no. 108 of 2009 Decided on January 13, 2010), wherein, while holding the appellant liable for manipulation stated that in case of one or few trades, the outcome would be different.
- (viii) IMSL has always abided by all the provisions and statutory requirements of the SEBI Act and its rules. Apart from the present case IMSL have never been held liable for any violation by SEBI.

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

- A. Whether IMSL conducted/ aided synchronised, circular and reversal trades in the Gangotri scrip? If yes, -
 - I. whether IMSL 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 SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003?
 - II. whether IMSL violated regulation 7 read with clauses A(1), A(2), A(3), A(4) & A(5) of Schedule II of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992?
- B. Whether the recommendation of the Designated Authority submitted in his Report dated July 31, 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 recognized 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 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.”

16. Subsequent decisions of the SAT have reinforced the aforesaid views albeit in different words and considering different circumstances.
17. There is nothing available on record to directly show that IMSL formed part of the Vishvas Group. The charge of illegal synchronisation and particularly that of circular trading should typically commence with the assumption that there is a meeting of minds between persons who are connected with each other. However, persons may be deemed to be connected if the magnitude of synchronisation is so large that the relationship between parties to the transaction is unassailable. This in essence was the legal position laid down in the case of

SEBI v. Kishore Ajmera & Ors wherein the Hon'ble Supreme Court by order dated February 23, 2016 (hereinafter referred to as "**SC Order**") 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. The following extracts of the said order of the Hon'ble Supreme Court are instructive in this regard:

"...knowledge of who the 2nd party/client or the broker is, is not relevant at all."
(para 26 of the SC Order)

While it is correct that trading in such illiquid scrips is per se not impermissible, yet, voluminous trading over a period of time in such scrips is a fact that should attract the attention of a vigilant trader engaged/engaging in such trades." (para 23 of the SC Order)

"When over a period of time such transactions had been made between the same set of brokers or a group of brokers a conclusion can be reasonably reached that there is a concerted effort on the part of the concerned brokers to indulge in synchronized trades the consequence of which is large volumes of fictitious trading resulting in the unnatural rise in hiking the price/value of the scrip(s)." (Para 25 of the SC Order)

"The conclusion has to be gathered from various circumstances like that volume of the trade effected; the period of persistence in trading in the particular scrip; the particulars of the buy and sell orders, namely, the volume thereof; the proximity of time between the two and such other relevant factors." (Para 26 of the SC Order)

Therefore as a principle, 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 infact taken place.

18. Applying the aforesaid principle to the case of IMSL, I note that the circumstantial evidence, pointing to a possibility of IMSL as a stock broker of Cosmo and Master having been an active party to the market manipulations by the Vishvas Group is not adequate. Further, the off-market transactions executed by Cosmo with Master (both being clients of IMSL) is also insufficient, in my opinion, to attribute knowledge of connection between the alleged Vishvas group entities and IMSL, being only the stock broker of Cosmo and Master. Such transactions are a matter between the respective security holders, in this case being Cosmo

and Master. The records above, including those stated by the DA in his Report, point to repeated number of synchronised trades on certain days in an otherwise illiquid scrip. Further, the DA Report records that on BSE, Cosmo's contribution to synchronised trades undertaken by the alleged Vishvas Group is around 10%, the volume of shares involved being approximately 11.85% of the total traded in a synchronised manner by the Vishvas Group. Similarly on NSE, contribution of Cosmo and Master to synchronised trades undertaken by the alleged Vishvas Group is approximately 18%, the volume of shares involved being approximately 17% of the total traded in a synchronised manner by the Vishvas Group. In relation to the role of other Vishvas Group entities, the figures cited in this Order in relation to volumes of trading do not appear to be significant enough to allege fraud on the part of IMSL which appears to have only played the role of a stock broker executing trades for its clients. Also, there is no evidence to state that IMSL's trades in Gangotri scrip were only carried out for Cosmo and Master. Further there is no evidence of substantial contribution to price manipulation through the trades executed by IMSL for its clients Cosmo and Master. In view of the above, the tests laid down in the SC Order to prove illegal synchronised and circular trades by brokers thereby resulting in a violation of PFUTP Regulations do not appear to have been satisfied in the instant case.

19. I now turn to examine whether there has been a violation of the provisions of the Stock Brokers Regulations dealing with Code of Conduct for the Stock Brokers. The SC Order in the Kishore Ajmera case (*supra*), which laid down the parameters to determine illegal synchronisation of trades, circular trades etc. also laid down the distinction between its applicability vis-à-vis PFUTP regulations on the one hand and Stock Brokers Regulations on the other. The decision of the Supreme Court in this context was recorded as follows:

"The difference between violation of the Code of Conduct Regulations and the FUTP Regulations would depend on the extent of the persistence on the part of the broker in indulging with transactions of the kind that has occurred in the present cases. Upto an extent such conduct on the part of the brokers/sub-brokers can be attributed to negligence occasioned by lack of due care and caution. Beyond the same, persistent trading would show a deliberate intention to play the market. The dividing line has to be drawn on the basis of the volume of the transactions and the period of time that the same were indulged in. In the present cases it is clear from all these surrounding facts and circumstances that there has been transgressions by

the respondents beyond the permissible dividing line between negligence and deliberate intention." (Para 26 of the SC Order)

20. Applying the aforesaid test to the case of IMSL, I am of the opinion that the persistence of trading by Cosmo and Master and the proximity of time between orders in a scrip which was otherwise illiquid should probably have alerted IMSL. I note that in separate proceedings by the Adjudicating Officer of SEBI, both the clients of IMSL, namely, Master and Cosmo were found to have executed illegal synchronised trades, circular trades and reverse trades, and accordingly orders imposing monetary penalty were passed. Master Finlease Ltd. preferred an appeal against the said order before the Hon'ble Securities Appellate Tribunal (SAT). However SAT upheld the order of the Adjudicating officer of SEBI. The relevant extracts of SAT order dated October 21, 2016 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.

b) Out of the total 1,11,400 shares of Gangotri sold by the appellant at NSE during the investigation period 7000 shares were synchronized with the member of Vishvas Group viz. MEFCOM Securities Ltd. ...

The aforesaid facts establish beyond any shadow of doubt that the appellant had indulged in synchronized trades.

....

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)

Therefore, the role of IMSL's clients in illegal synchronised trades and circular trades was quite obvious, as is borne out from the aforesaid decisions of the Adjudicating Officer and the Hon'ble SAT. The figures, in terms of volumes of transactions, described above appear sufficient for a prudent stock broker to have taken notice as those not being in the ordinary course of trades. A registered stock broker is expected to adhere to standards of good conduct enshrined in the Stock Brokers Regulations. These standards require a broker not to mechanically place orders in furtherance of commercial objectives but be vigilant of fraudulent trades or attempts to manipulate the securities market and to refrain from executing trades which are suspected to be in breach of securities laws. A broker is required to exercise caution with respect to any fraudulent trades by its clients and must not function as a mere agent for placing of orders. The broker may not have control over the trades themselves, since under normal circumstances buy/sell orders are expected to match on a price-time priority basis without human intervention. However placing of orders in close succession of time and date, in scrips which, based on fundamentals, would not by itself generate any investor interest, ought to have aroused the suspicion of a vigilant broker. This is particularly so when IMSL had more than one client whose trades were a cause of concern. Therefore, in view of the principles laid down in the SC Order, IMSL as a stock broker can be said to be in breach of the provisions of the Stock Brokers Regulations i.e. Regulation 7 thereof read with clause A of Schedule II of the Regulations (Code of Conduct for Stock Brokers) by not exercising proper care and diligence.

- 21.** As already recorded in my findings above, the evidence against IMSL on record, in my opinion, is insufficient to prove the allegation of fraudulent synchronisation of trades or reversal trades. I do however find that the allegation of failure to comply with the Code of Conduct stands substantiated. At the same time, the following aspects also merit consideration -
- (i) IMSL does not appear to be a part of the group indulging in manipulative transactions in connivance with its clients.
 - (ii) The violation pertains to the year 2006 and the first show cause notice was issued in 2014. Delay in proceedings may have caused prejudice to the Noticee i.e IMSL.
- 22.** Though the DA has recommended suspension of IMSL's certificate of registration as a stock broker for a period of four months, in my opinion acceptance of this recommendation at this point of time may have an adverse impact on the retail clients of IMSL. On an overall

assessment of the facts and circumstances of the case and in the context of the violation of Code of Conduct having been made out in the paragraphs above, I am inclined to pass directions against IMSL modifying the recommendation of the DA.

- 23.** Therefore, in exercise of powers conferred on me under section 12 (3) of the SEBI Act read with regulation 28 (2) and 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 IMSL, I hereby direct that Integrated Master Securities Ltd. (PAN : AAACI2074F) shall be prohibited from accepting fresh clients, as a stock broker, for a period of two months from the date of this Order. Integrated Master 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 Integrated Master Securities Ltd., in accordance with regulation 30 of the SEBI (Intermediaries) Regulations, 2008.

Place: Mumbai

Date: May 15, 2017

G. MAHALINGAM

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA