

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 TCP Stock Brokers Ltd. (now known as Pioneer TCP Stock Brokers Ltd.)
(PAN No. AABCT2172Q)

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 TCP Stock Brokers Ltd, now known as Pioneer TCP Stock Brokers Ltd. (hereinafter referred to as "**TCP**") which during the Investigation Period was found to have executed trades on behalf of its client Praveen Poddar ("**Praveen**") in the scrip of Gangotri on BSE. Therefore any reference in this Order to trades by TCP may be read as trades executed by Praveen through TCP.
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 the 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. (" 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 TCP, 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 TCP. After completion of the proceedings, the DA submitted a Report dated July 31, 2014 in respect of TCP (hereinafter referred to as "**the DA Report**"), wherein it was found that TCP 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 TCP 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 TCP 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. TCP filed its reply by letter dated October 04, 2016 and email dated October 06, 2016. Opportunity of personal hearing was granted to the Noticee on June 02, 2016. The Noticee sought to reschedule the same. Another opportunity of hearing was granted on

October 05, 2016. Due to official exigency the same could not take place. The Whole Time Member who had granted the opportunity of personal hearing to TCP had subsequently demitted office. Consequently, a fresh opportunity of personal hearing to TCP was granted on December 7, 2016. However the TCP communicated its inability to attend the hearing by letter dated December 1, 2016 and requested that its written submissions be considered.

9. Summary of facts and the related observations made by the DA in his Report in relation to the trades by TCP 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 Praveen i.e. the client of TCP, the DA observed that Praveen was connected to Purshottam, Cosmo, ISF, Sunita and Mefcom 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	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, Praveen contributed to 8.87% and 9.79% of shares bought and sold on BSE, respectively.

9.3 Trades on BSE and manipulation of volumes: On BSE, during the investigation period, seven members of the Vishvas Group including Praveen 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 Praveen had a gross sell position with a total contribution of 52.5% (46,93,517 shares) of the total traded quantity. TCP had bought 4,60,990 shares and sold 4,60,990 shares of Gangotri for its client Praveen. The transactions were carried out on 23 days out of the investigation period. It is observed that on 9 days, the net position of TCP's client 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 a total of 420 synchronized trades (buy & sell) by Vishvas Group for 24,52,618 shares, Praveen indulged in 60 synchronized trades for 3,83,811 shares. 2,69,841 shares bought and 1,13,970 shares sold by TCP for its client Praveen 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 23, 2006. On the said date, a sell order was placed by Purshottam at 10:33:26 at the rate of `49.9 for 5,000 shares and a buy order was placed by Praveen at 10:33:31 at the rate of `49.9 for 5,000 shares thereby resulting in purchase of 5,000 shares at the rate of `49.9 by Praveen from Purshottam at 10:33:32. The order time difference was 5 seconds. Subsequently, sell order was placed by Praveen at 10:51:34 at the rate of `50.65 for 5,000 shares and buy order was placed by Purshottam at 10:51:39 at the rate of `50.65 for 5,000 shares. The order time difference was 5 seconds. The orders resulted in Purshottam buying back 5,000 Gangotri shares from Praveen at the rate of `50.65 at 10:51:40, the trade being reversed within 20 minutes.

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 among the group involving Praveen, on BSE, observed on April 24, 2006 was depicted in the DA Report as under:

Thus the DA found that on BSE nine members of the Vishvas Group including Praveen 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 Price Manipulation: On BSE, nine members of Vishvas Group including Praveen had cumulatively contributed ` 718.05 to positive Last Traded Price (LTP) and `468.65 to Negative LTP. Individually, Praveen had contributed ` 10.20 to total positive LTP and ` 3.20 to total negative LTP.

- 10.** In addition to the observations in the DA Report as discussed above, I have examined some orders placed by TCP 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. TCP, 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. A table indicating synchronised orders/trades placed on **BSE**, involving TCP's client i.e. Praveen, as extracted from the order logs/trade logs, is given below:

TABLE 5

Trade Date	Trade Time	Trade Quantity	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	10:31:32	15000	47.6	Praveen	Cosmo	10:31:31	10:31:19	00:00:13	47.6	47.6	15000	15000
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	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	10:17:21	6240	56.85	Sunita	Praveen	10:17:20	10:17:05	00:00:15	56.85	56.85	7500	7500
25/04	10:45:31	5000	58.15	Sunita	Praveen	10:45:31	10:45:29	00:00:02	58.15	58.15	5000	5000
27/04	10:19:11	22900	60.55	Praveen	Purushottam	10:19:04	10:19:10	00:00:06	60.55	60.55	25000	25000
28/04	11:10:16	1985	58.7	Praveen	Purushottam	11:10:15	11:09:16	00:00:59	58.7	58.7	2000	2000
28/04	11:10:46	3000	58.85	Praveen	Purushottam	11:10:46	11:10:40	00:00:06	58.85	58.85	3000	3000
02/05	10:04:59	9100	62.2	Praveen	Purushottam	10:04:58	10:04:29	00:00:29	62.2	62.2	1000	1000

											0	0
02/05	10:17:45	9729	62.8 5	Praveen	Purushottam	10:17:43	10:17:44	00:00:02	62.85	62.85	1000 0	1000 0
02/05	10:18:56	9764	62.9 5	Praveen	Purushottam	10:18:53	10:18:56	00:00:02	62.95	62.95	1000 0	1000 0
02/05	10:08:46	10000	62.3 5	Mefcom	Praveen	10:08:45	10:08:38	00:00:08	62.35	62.35	1000 0	1000 0
04/05	10:16:09	1500	67.4 5	Praveen	Purushottam	10:16:02	10:15:10	00:00:52	67.45	67.45	1000 0	1000 0
04/05	10:16:09	7600	67.4 5	Praveen	Purushottam	10:16:02	10:15:49	00:00:12	67.45	67.45	1000 0	1000 0
04/05	11:32:50	24900	69.6 5	Praveen	Purushottam	11:32:42	11:32:49	00:00:07	69.65	69.65	2500 0	2500 0
08/05	10:10:36	5000	64.7 5	Praveen	Purushottam	10:10:35	10:10:33	00:00:02	64.75	64.75	5000	5000
08/05	10:10:56	2000	64.7	Praveen	Purushottam	10:10:55	10:10:51	00:00:04	64.7	64.7	2000	2000
09/05	11:06:13	4894	64.2	Praveen	Purushottam	11:06:12	11:06:12	00:00:00	64.2	64.2	1000 0	1000 0
09/05	10:37:40	9952	62.8 5	Purushott am	Praveen	10:37:39	10:37:29	00:00:10	62.85	62.85	1000 0	1000 0
09/05	11:07:36	6000	64.0 5	Cosmo	Praveen	11:07:35	11:07:25	00:00:10	64.05	64.05	6000	6000
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
10/05	14:43:49	10000	60.6 5	Praveen	Purushottam	14:43:48	14:43:46	00:00:01	60.65	60.65	1000 0	1000 0
10/05	14:44:28	500	60.7	Praveen	Purushottam	14:44:27	14:44:20	00:00:07	60.7	60.7	500	500
10/05	14:55:56	4995	61.2	Praveen	Purushottam	14:55:56	14:55:51	00:00:04	61.2	61.2	5000	5000
10/05	14:56:16	4810	61.4	Praveen	Purushottam	14:56:15	14:56:12	00:00:04	61.4	61.4	5000	5000
10/05	10:09:04	999	61.3	Purushott am	Praveen	10:09:03	10:09:01	00:00:02	61.3	61.3	1000	1000
10/05	14:58:18	9990	61.2 5	ISF	Praveen	14:58:17	14:58:17	00:00:01	61.25	61.25	1000 0	1000 0
11/05	10:09:25	5000	61.1 5	Praveen	Sunita	10:09:24	10:09:21	00:00:03	61.15	61.15	5000	5000
11/05	11:52:13	9998	60.9 5	Praveen	Mefcom	11:52:12	11:51:46	00:00:26	60.95	60.95	1000 0	1000 0
11/05	11:52:53	9903	61.3	Praveen	Mefcom	11:52:52	11:52:51	00:00:01	61.3	61.3	1000 0	1000 0
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
11/05	9:58:22	3999	62.4	Purushott am	Praveen	09:58:21	09:58:09	00:00:12	62.4	62.4	4000	4000
12/05	10:23:34	9720	60.9 5	Praveen	Mefcom	10:23:33	10:23:05	00:00:27	60.95	60.95	1000 0	1000 0
12/05	11:09:07	9914	61.3	Praveen	Purushottam	11:09:01	11:09:06	00:00:05	61.3	61.3	1000 0	1000 0
12/05	11:12:25	8624	61.1 5	Praveen	Purushottam	11:12:00	11:12:24	00:00:24	61.15	61.15	1000 0	1000 0
12/05	11:14:23	4774	61.1 5	Praveen	Sunita	11:14:22	11:14:01	00:00:21	61.15	61.15	5000	5000
12/05	9:58:19	9975	61.7 5	Purushott am	Praveen	09:58:18	09:57:59	00:00:19	61.75	61.75	1000 0	1000 0
15/05	10:08:25	5000	60.6 5	Praveen	Sunita	10:08:24	10:08:09	00:00:16	60.65	60.65	5000	5000
15/05	11:16:00	4799	62.2	Praveen	Purushottam	11:15:59	11:15:42	00:00:18	62.2	62.2	5000	5000
16/05	10:42:21	5000	62.7 5	Praveen	Purushottam	10:42:20	10:42:16	00:00:05	62.75	62.75	5000	5000
16/05	10:42:31	4900	62.7	Praveen	Purushottam	10:42:30	10:42:27	00:00:03	62.75	62.75	5000	5000

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16/05	10:42:46	4000	62.75	Praveen	Purushottam	10:42:45	10:42:39	00:00:05	62.75	62.75	5000	5000
16/05	10:44:01	5000	62.65	Praveen	Purushottam	10:44:00	10:43:59	00:00:01	62.65	62.65	5000	5000
16/05	10:56:42	5655	63.2	Praveen	Purushottam	10:56:40	10:56:41	00:00:01	63.2	63.2	6000	6000
16/05	10:17:37	5000	63.5	ISF	Praveen	10:17:36	10:17:27	00:00:09	63.55	63.55	5000	5000
16/05	10:17:52	5000	63.6	ISF	Praveen	10:17:51	10:17:48	00:00:03	63.6	63.6	5000	5000
16/05	10:44:55	4935	62.7	Cosmo	Praveen	10:44:29	10:44:55	00:00:26	62.7	62.7	10000	10000
16/05	10:47:35	4965	62.7	Cosmo	Praveen	10:47:34	10:47:28	00:00:06	62.7	62.7	5000	5000
23/05	9:59:28	10000	49.85	Praveen	Purushottam	09:59:21	09:59:28	00:00:07	49.85	49.85	10000	10000
23/05	10:33:32	5000	49.9	Praveen	Purushottam	10:33:31	10:33:26	00:00:05	49.9	49.9	5000	5000
23/05	11:06:51	4999	50.2	Mefcom	Praveen	11:06:50	11:06:48	00:00:02	50.2	50.2	5000	5000
23/05	10:51:40	5000	50.65	Purushottam	Praveen	10:51:39	10:51:34	00:00:05	50.65	50.65	5000	5000
23/05	10:58:11	5000	50.25	Purushottam	Praveen	10:58:11	10:58:04	00:00:06	50.25	50.25	5000	5000
23/05	11:20:44	5000	50.1	Purushottam	Praveen	11:20:43	11:20:34	00:00:09	50.1	50.1	5000	5000
24/05	10:10:38	2000	50.65	Mefcom	Praveen	10:10:37	10:10:24	00:00:12	50.65	50.65	2000	2000
26/05	12:55:30	1000	46.45	Praveen	Purushottam	12:55:23	12:55:29	00:00:06	46.45	46.45	1000	1000
26/05	15:25:19	2112	46.45	Purushottam	Praveen	15:25:17	15:25:06	00:00:12	46.45	46.45	2500	2500
26/05	15:29:48	4804	46.8	Purushottam	Praveen	15:29:47	15:29:44	00:00:03	46.8	46.8	5000	5000
29/05	14:08:41	2500	45.95	Praveen	Purushottam	14:08:38	14:08:39	00:00:02	45.95	45.95	2500	2500
29/05	10:00:21	3000	48.2	Sunita	Praveen	10:00:20	10:00:11	00:00:09	48.2	48.2	3000	3000

The above table reveals that for its client Praveen, TCP indulged in **60** synchronised trades for 3,83,811 shares at **BSE** during a period of 18 trading days between April 21 and May 29 of 2006.

10.2 Circular Trades Analysis: It was observed that on certain days, whatever quantity of shares were bought by Praveen from other Vishvas Group entities, were sold back to Vishvas Group entities on the same day. Instances of circular trades done on **BSE** may be observed from the below table:

TABLE 6

Date	Buy Qty by Praveen Poddar	Seller Name	Sell Qty by Praveen Poddar	Buyer Name
21/04/2006	29,900	Sunita , Cosmo	29,775	Cosmo , Purshottam, Mefcom
24/04/2006	7,475	Cosmo	7,500	Mefcom
25/04/2006	12,499	Cosmo , Purshottam	12,500	Sunita , Purshottam

26/04/2006	916	Purshottam	1,323	Purshottam
27/04/2006	24,900	Purshottam	10,000	Cosmo , Master Finlease
28/04/2006	5,597	Purshottam		
02/05/2006	29,945	Purshottam	31,701	Purshottam, VPL, Mefcom
04/05/2006	34,000	Purshottam		
05/05/2006	3,000	Purshottam	12,100	Purshottam
08/05/2006	8,972	Purshottam		
09/05/2006	14,970	Purshottam	16,000	Purshottam, Cosmo
10/05/2006	30,980	Purshottam, Cosmo	42,903	Purshottam, ISF
11/05/2006	57,934	ISF, Cosmo , Sunita , Mefcom	58,158	Purshottam, ISF, Sunita
12/05/2006	48,908	ISF, Purshottam, Sunita , Mefcom	40,807	Purshottam, Sunita
15/05/2006	33,268	Purshottam, Sunita	14,025	Purshottam
16/05/2006	42,836	Purshottam	42,525	ISF, Cosmo , Sunita , Purshottam
22/05/2006			14,474	Purshottam, Mefcom
23/05/2006	15,446	Purshottam	20,000	Purshottam, Mefcom
24/05/2006			2,000	Mefcom
26/05/2006	11,804	Purshottam	14,804	Purshottam, Cosmo
29/05/2006	6,401	Purshottam	10,506	Sunita, Mefcom , Purshottam
Grand Total	4,19,751		3,81,101	

11. It was observed during the investigation that the day from when the 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 TCP are as follows:

- i. Volume of shares was only 5.4% and the income from the said trades was very small, which does not justify that TCP entered into synchronised trading.
- ii. There were other members who had executed very large trades in Gangotri. Compared to their role, TCP's is very minor and therefore the charge of synchronized trading is not justified.
- iii. When a client places orders, the member cannot judge his intention.

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

- A. Whether TCP conducted/ aided synchronised, circular and reversal trades in the Gangotri scrip? If yes, -
 - I. whether TCP 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 TCP 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 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 legal provisions 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 TCP 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 TCP, I note that the circumstantial evidence, pointing to a possibility of TCP having been an active party to the market manipulations by the Vishvas Group is not adequate. 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. However, compared to the role of other Vishvas Group entities, the figures cited in this Order in relation to volumes of trading on the part of Praveen do not appear to be significant enough to allege fraud on the part of TCP which appears to have only played the role of a stock broker executing trades for its client. While Praveen's contribution to LTP variation is more than many other members of the Vishvas Group, it does not appear to be significant enough to suggest fraud on the part of its stock broker i.e. TCP. In view of the

above, the tests laid down in the SC Order to prove illegal synchronised 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 TCP, I am of the opinion that the persistence of trading by Praveen, the proximity of time between orders in a scrip which was otherwise illiquid, and the prices at which Praveen placed orders, should probably have alerted TCP. I note that in separate proceedings by the Adjudicating Officer of SEBI, the client of TCP, namely, Praveen was found to have executed illegal synchronised trades, circular trades and reverse trades, and accordingly orders imposing restraints on trading and monetary penalty were passed. Relevant extracts of the Order of the Adjudicating Officer dated August 27, 2014 is reproduced below:

"35. The trading pattern of the Noticee creates doubts about the genuineness of her trades. I am of the view that the trades carried out were fraudulent and manipulative in nature. However, in the present case, the records show that most of the trading carried

out by the Noticee was with a fixed set of entities i.e. members of Vishvas Group namely, Purshottam, Mefcom, VPL, Cosmo, ISF, and Sunita.

36. Therefore, I am of the view that the trades of the members of Vishvas Group were with the intention not to transfer the beneficial ownerships of the shares of Gangotri but with an intention to operate only as a device to inflate, depress or cause fluctuations in the price of shares of Gangotri for wrongful gains. Thus the Noticee through collusion with the other members of the Vishvas Group has transacted in the shares of Gangotri in such a manner that it led to creation of artificial volumes in the scrip and a false market leading to price movement in the scrip which lacked presence of any sort of fundamentals.”

Accordingly, Praveen was imposed a monetary penalty of seventy lakh rupees.

- 21.** Therefore, the role of TCP's client i.e. Praveen in illegal synchronised trades and circular trades was quite obvious, as is borne out from the aforesaid decision of the Adjudicating Officer. The figures, in terms of volumes of transactions, described above appear sufficient for a prudent stock broker to have taken notice as being out of the ordinary. 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 to be vigilant of any 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. It 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. Therefore, in view of the principles laid down in the SC Order, TCP 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.
- 22.** As already recorded in my findings above, the evidence against TCP 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) TCP 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 TCP.

23. Though the DA has recommended suspension of TCP'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 be disproportionate to the aforesaid violation and may also have an adverse impact on the retail clients of TCP. 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 TCP modifying the recommendation of the DA.

24. 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 TCP, I hereby direct that Pioneer TCP Stock Brokers Ltd. (PAN No. AABCT2172Q) shall be prohibited from accepting fresh clients, as a stock broker, for a period of one month from the date of this Order. Pioneer TCP Stock Brokers Ltd. shall disclose the contents of these directions on its website(s) immediately.

25. A copy of this Order shall be served on the recognised stock exchanges and on Pioneer TCP Stock Brokers Ltd., in accordance with regulation 30 of the SEBI (Intermediaries) Regulations, 2008.

Place: Mumbai

Date: May 23, 2017

G. MAHALINGAM

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA