

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: MR. RAJEEV KUMAR AGARWAL, WHOLE TIME MEMBER**

ORDER

UNDER REGULATIONS 28(2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 AGAINST PARKLIGHT INVESTMENTS PVT. LTD. (SEBI REGISTRATION NO. INB 011037836).

IN THE MATTER OF GENUS COMMUTRADE LIMITED.

Appearances:

For Parklight Investment Pvt. Ltd.:

1. Mr. Vijay Ranjan, Advocate

For Securities and Exchange Board of India:

1. Mr. Santosh Kumar Shukla, Joint Legal Adviser
 2. Mr. Sharad K. Sharma, General Manager
 3. Mr. Himadri Shekhar Verma, Assistant General Manager
 4. Mr. Gautam Kumar, Assistant Legal Adviser and
 5. Mr. Swapnil Jain, Legal Officer
-

1. Securities and Exchange Board of India ('SEBI') had conducted investigation into the trading in the scrip of Genus Commutrade Ltd. ('the company/GCL') for the period May 14, 2001 to July 20, 2001 ('the investigation period') on the basis of an internal investigation carried out by the Bombay Stock Exchange Limited ('BSE'). During the investigation period, the scrip of GCL was listed at BSE and the Ahmedabad Stock Exchange ('ASE'), however, the scrip was traded only at BSE.
2. SEBI investigation revealed that M/s Parklight Investments Private Limited ('PIPL'), a stock broker and member BSE, was found to have aided and abetted its clients in creation of artificial volume and impacting the price in the scrip of GCL and have not exercised due care and diligence while dealing on behalf of its clients. Pursuant to the investigation, SEBI initiated proceedings under regulation 25 read with regulation 38 of the SEBI (Intermediaries) Regulations, 2008 ('the Intermediaries Regulations') to find out whether PIPL had contravened the provisions of regulations 4 (b) and (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995

('PFUTP Regulations 1995') read with regulations 4(1),4(2)(a)read with regulation 13 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 ('PFUTP Regulations 2003') and clauses A(1) to (5) of Code of Conduct specified for stock brokers in Schedule II read with Regulation 7 of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 ('Stock Brokers Regulations').

3. After completion of the proceedings, the Designated Authority ('DA') submitted his Report dated December 26, 2011 ('the Report') in terms of regulation 27 and 38(2) of the Intermediaries Regulations. In the Report, the DA found that PIPL had not committed violation of regulations 4(b) and 4(c) of PFUTP Regulations 1995 read with regulations 4(1) and 4(2) (a) of PFUTP Regulations 2003. The DA, however, found that PIPL had failed in its duty to prevent situations that could create a deceptive environment for the general investors and such failure had an adverse reflection on its integrity as its own director and shareholders were involved in the manipulative trading. Thus, it had violated clauses A (1) and (4) of Code of Conduct prescribed for stock brokers in Schedule II read with regulation 7 of Stock Brokers Regulations. Based on these findings, the DA recommended that certificate of registration of PIPL be suspended for a period of seven days.
4. After considering the Report, a show cause notice ('SCN') dated January 31, 2012 was issued to PIPL ('the noticee') under regulation 28(2) of the Intermediaries Regulations calling upon it to show cause as to why action should not be taken against it as recommended by the DA or as deemed fit by the Board. A copy of the Report was also forwarded to the noticee alongwith the SCN.
5. PIPL filed its reply vide letters dated March 02, 2012 and May 28, 2012 and made following submissions:
 - a) It has denied all the charges alleged against it.
 - b) It has submitted that since the matter was very old for which no details were readily available with the noticee, it was impossible for it to file a detailed reply. Relying upon the orders of Hon'ble Securities Appellate Tribunal (SAT) in the matter of *Libord Finance Ltd. vs. SEBI* and *Shri Ashok K Chaudhary vs. SEBI*, the noticee has contended that on account of inordinate delay in issuing the SCN to it, the SCN is legally untenable and liable to be set aside.
 - c) The Report mentioned that the clients are related to each other but the DA has not specified as to what was the relation between the entities. It has denied the alleged relationship which is made on the basis of common directors and addresses and has

contended that merely being a common shareholder or common director cannot lead to a conclusion that PIPL was involved in its clients' trading.

- d) Its total trades consisted of 14, 69,440 shares (13.65% of the total traded volume) bought and 8, 85,044 shares (8.22% of the total traded volume) sold. As stated in the SCN, the noticee had done trades for 1, 43,047 shares of GCL on its own account during the investigation period and these trades had contributed only 1.32% of the total traded volume in the relevant period. The noticees's trades were negligible compared to the total traded volume during the investigation period and hence it would be unfair to allege any market manipulation serious enough to create any significant artificial volume and price fluctuation due to its negligible trades.
 - e) Relying upon the order of *Kasat Securities Pvt. Ltd. vs. SEBI*, the noticee has contended that to hold a broker in violation of any regulations or to make it liable to any penalty sufficient material on record is to be placed to establish that it was aware of the nature of the transaction executed by its clients. On a screen based trading mechanism of the exchange and during the relevant time, PIPL was not aware of the identity of the other brokers/clients who were trading in the scrip of GCL during the investigation period.
 - f) In this matter, the proceedings under sections 11 and 11B of the SEBI Act, 1992 were initiated against 5 entities out of a group of alleged 9 connected entities wherein they were charged for allegedly violating regulations 4(b) and 4(c) of PFUTP Regulations 1995. Vide an Order dated March 31, 2010, warning was issued to those 5 entities. The alleged involvement of the noticee is far less significant as compared to those 5 entities and thus does not warrant a harsh penalty such as suspension of certificate of registration for seven days as recommended by the DA.
 - g) The recommendation of such a severe penalty of suspension has been recommended on a mere suspicion of possible collusion or existence of possible motives. There is no allegation in the Report as to noticee's motive, financial gain made by the noticee, any financial loss to any investor or any investor complaint against the noticee's alleged misconduct.
6. An opportunity of personal hearing was granted to the noticee on April 03, 2012 which was adjourned to May 10, 2012 and further adjourned to May 28, 2012 as requested by the noticee. Subsequently, another opportunity of personal hearing was granted to the noticee on June 28, 2012 which was again adjourned to July 30, 2012 as sought by the noticee on the ground that it is in the process of changing its advocate. However, the noticee did not appear on July 30, 2012 and once again requested adjournment on the ground that its consultant is out of India. Acceding to the request of the noticee, a final opportunity of personal hearing was granted to the noticee on September 18, 2012 when the learned advocate of the noticee appeared and made submissions on the lines of written replies of the noticee and emphasised

that the only charge against the noticee is violation of Code of Conduct and the SCN or Report does not allege any wrong or manipulative or fraudulent dealing on the part of the noticee. He further submitted that Mr. Uday Vora, Ms. Sonal U Vora and Mr. Dhiren Vora were regular clients of the noticee and as such there was nothing unusual suspected by the noticee that could alert it. Hence, the noticee can not be held liable for negligence in that regard.

7. I have examined the Report, the SCN, replies of the noticee and other relevant material available on record. Before dealing with submissions of the noticee on merit, I deem it fit to deal with the preliminary objections raised by the noticee regarding tenability of SCN on account of delay as contended by it. I note from the records that after the approval of the proposed actions by the Competent Authority, the present proceedings were initiated against the noticee on March 27, 2008. While the proceedings were pending, the noticee filed consent application on August 24, 2009 and the same was rejected on September 30, 2011. Thereafter, the DA submitted the Report on December 26, 2011. I note that there is no delay on the part of DA in submission of Report as the noticee had filed consent application that was under process for a considerable period of time and the noticee had also contributed in the time consumed in disposal of its consent application. The noticee has alleged delay in issuance of SCN. I note that the SCN was issued to the noticee on January 31, 2012 after considering the Report dated December 26, 2011 and there was no delay in issuance of the SCN as contended by the noticee. I further, note that when the dates of hearing in the matter were fixed and intimated to the noticee, it sought several adjournments (total 4 occasions) for one or the other reason. I, therefore, am the view that the noticee has substantially contributed to the time taken in concluding these proceedings pursuant to the SCN. I, therefore, do not agree with the contention of the noticee.
8. Now I proceed to deal with the merit of the case. Before dealing with the charges alleged against the noticees, I deem it necessary to refer to the relevant regulations the contravention of which has been alleged in this case. The said regulations are reproduced hereunder for the facility of reference:-

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 at Schedule II."

Code of Conduct for stock brokers in Schedule II

A. General.

(1) *Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.*

(2)

(3)

(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 stock-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness."*

9. I note that in the instant case, the noticee has not disputed the fact that the scrip of GCL was illiquid during the investigation period and there were very few trades done in the scrip prior to and after the investigation period as mentioned in the SCN and that the shares of GCL had witnessed sudden rise in price and volume during the investigation period when the trades described in the SCN had taken place. However, the noticee has denied the connection/relation amongst its clients. I note from the Report that following factors have been taken into account to determine the relationship/connection between the GCL, the noticee and the clients on whose behalf the noticee had traded in the scrip of GCL, during the investigation period:

Table A: Relationship among the clients/entities, PIPL and GCL

Name of the clients	Name of the connected clients	Relationship/Connection
Uday H. Vora, Director - PIPL	H. Nayalchand Financial Services Ltd. (HNFSL) Member of ASE and a Depository Participant of NSDL.	Mr. Uday Vora is a common Director in PIPL and HNFSL. Mr. Uday Vora is holding 25% of total paid up capital in PIPL.
	Mr. Dhiren N. Vora	Mr. H. N. Vora, who is one of the major shareholders of PIPL, is father of Mr. Uday Vora and Mr. Dhiren Vora. They share same office address i.e., H. N. House, Nr. High Court, Rly. Crossing Navrangpura, Ahmedabad – 380 009.
	Mr. Rajeshkumar Vithalbhai Patel.	Mr. Uday Vora and Rajeshkumar Vithalbhai Patel are shareholders of PIPL

	<p>Parklight Securities Ltd member (PSL) – ASE (Director – Mr. Rupesh D. Shah & Mr. Dharmesh B. Patel).</p> <p>Mr. Dhaval V Shah</p> <p>Mrs. Kirtiben Rajesh Patel</p> <p>Mr. Dharmesh B. Patel</p> <p>Mrs. Sonal Uday Vora</p>	<p>Mr. Uday Vora and PSL share same office address and telephone number i.e. 164-Zone B, 1st Floor, Kamdhenu Complex, Pajara Pole, Ambawadi, Ahmedabad – 380015 and telephone No. 6302234 & 6300307</p> <p>Mr. Uday Vora and Mr Dhaval V Shah share same office address i.e., H. N. House, Nr. High Court, Rly. Crossing Navrangpura, Ahmedabad – 380 009.</p> <p>Mr. Uday Vora and Mrs. Kirtiben Rajesh Patel are shareholders of PIPL.</p> <p>Mr. Dharmesh B. Patel and Mr Uday Vora share same office address.</p> <p>Mrs. Sonal Uday Vora is wife of Shri Uday Vora and shares same residential address with him.</p>
Rajeshkumar V Patel	<p>Mrs. Kirtiben Rajesh Patel</p> <p>Mr. Paresh R. Patel</p>	<p>Mr. Rajeshkumar V Patel is husband of Mrs. Kirtiben Rajesh Patel and shares same address. Both are promoters of GCL holding together 11, 30,000 shares of GCL (11.15% of the total paid up equity capital as on March 31, 2001 and 2002). Both of them are also shareholders of PIPL.</p> <p>Mr. Rajeshkumar V. Patel introduced Mr. Paresh R. Patel to PIPL as shown in the Client Registration Form.</p>
Hema Paresh Patel	Mr. Paresh R. Patel	Mr. Paresh R Patel and Mrs. Hema Patel have the same address in the client registration form with the broker Harikishan Hiralal. Both are shareholders in GCL.

10. I note that Hon'ble SAT has, in many cases such as *Classic Credit Ltd. vs. SEBI (SAT Appeal no. 68/2003, Order dated December 8, 2006)*, *Classic Credit Ltd. vs. SEBI (SAT Appeal no. 76/2003, Order dated January 9, 2007)* and *Veronica Financial Services Ltd. Vs SEBI (SAT Order dated August 24, 2012)*, held that connection/relations can be established on the basis of factors such the common addresses, common directors/ shareholders. In this regard, following observations of Hon'ble SAT in the case of *Classic Credit Ltd. vs. SEBI (SAT Appeal no. 68/2003, Order dated December 8, 2006)*, is worth mentioning:-

"... the adjudicating officer clarified and pointed out to the counsel that all the appellants had been acting in concert with each other and that the basis for such an observation was their constitutions, their shareholding pattern, their directors and the common addresses which they all had... No fault can, thus, be found with the action of the adjudicating officer."

11. In view of the above, I find that from the Table A, it is clear that the clients of the noticee namely Mr. Rajeshkumar V. Patel, Mrs. Kirtiben R. Patel, Mr. Paresh R. Patel, Mrs. Hema Paresh Patel, Mr. Dhaval V. Shah, Mr. Dharmesh Patel, Mr. Uday Vora, Ms. Sonal Uday Vora and Mr. Dhiren Vora ('the *connected/related clients*') were connected/related with each other, the promoters of GCL, H Nyalchand Financial Services Ltd. (broker-BSE) and the noticee.
12. While the noticee has admitted the trades alleged in the SCN, it has contended that those trades were done in ordinary course of business as per the instructions of its clients and the trades done on behalf its clients as well as its own trades were miniscule to contribute to creation of volumes and impact price of the scrip during the investigation period. I note that the scrip of GCL was illiquid and prior to the investigation period there were only 12 trades in the scrip of GCL for total 1700 shares between January 2001 to April 2001. During the investigation period, the scrip was traded for 50 days and the total traded volume in the scrip was 1, 07, 65,730 shares. The price of the scrip was ₹5.40 on May 14, 2001 which touched a high of ₹23.90 on July 2, 2001 and closed at ₹20.25 on July 20, 2001. The traded volume in the scrip was 3,500 shares on May 14, 2001 which touched a high of 9,21,151 shares on May 28, 2001 and closed at 1,95,153 shares on July 20, 2001. The scrip had hit the circuit filter limits on ten days (six days-upper and four days-lower) on BSE during the investigation period. The financial performance/position of the company was not good during the investigation period as well as one year prior and after the investigation period. The net profit of the company stood at a mere ₹ 0.60 lakh as on June 2002.

13. It has been found in the Report that the *connected/related clients* traded through PIPL as well as other brokers also. For instance, Mr. Rajkumar V. Patel had dealt in the scrip of GCL through the noticee and stock broker Ventura Securities Ltd. Further, the *connected/related clients* of the noticee traded in the scrip among themselves and also with other clients/brokers during the investigation period. Total 42, 89,461 shares of GCL (39.84% of the total traded volume) were bought through these trades. Buying concentration amongst the *connected/related clients* trading through the noticee and other brokers was 13, 24,659 shares (12.30% of the total trading volume and 30.88% of these clients' trading volume). Similarly, total 37, 80,632 shares (35.12% of the total traded volume) of GCL were sold through these trades and the selling concentration amongst the *connected/related clients* trading through the noticee and other brokers was 13, 21,242 shares (12.27% of the total traded volume and 34.95% of these clients' trading volume) during the investigation period.
14. The details of total trades of the noticee on gross basis during the investigation period are given as following:

Table B: Total Trades of PIPL

Sr. No.	Client	Gross Purchase		Gross Sell		Net (Qty.)
		Qty.	%	Qty.	%	
1	Uday Vora (Director, PIPL)	5,27,398	4.90	1,38,399	1.28	3,88,999
2	Bombay Mutual Chambers	2,90,258	2.70	1,74,054	1.62	1,16,204
3	Hasmukh Vora	1,87,383	1.74	-	-	1,87,383
4	Paresh R. Patel	1,80,000	1.67	2,00,000	1.86	-20,000
5	Kirtiben R. Patel	1,15,000	1.07	-	-	1,15,000
6	Others	1,69,401	1.57	-	-	-
	Total	14,69,440	13.65	8,85,044	8.22	5,84,396

15. I note that the noticee had traded total 23, 54,484 shares of GCL wherein it bought 14, 69,440 shares (13.65% of total traded volume) and sold 8, 85,044 shares (8.22% of total traded volume) on behalf of its different clients including the '*connected/related clients*' and in its own account during the investigation period. As stated in the SCN and admitted by the noticee, it had done trades for 1, 43,047 shares out of total 23, and 54,484 shares (1.32% of the total traded volume) of GCL on its own account during the investigation period.
16. The scrip of GCL opened higher for 31 days than the previous day's closing price and closed higher than the previous day's closing price for 29 days out of a total of 50 trading days during the investigation period. Thus, the only possible inference can be that the trades done by noticee on its account and on behalf of its *connected/related clients* influenced the price of

the scrip during the investigation period. In my view, the resultant price and volume surge in the illiquid scrip of GCL definitely had potential to influence the investment behaviour of the investors.

17. I note that the noticee has contended that on a screen based trading mechanism on the exchange, PIPL was not aware of the identity of the other brokers/clients who were trading in the scrip of GCL during the investigation period. In my view, the conduct of the stock broker in any scheme or device of its client in such transactions can be inferred on the basis of circumstantial evidence also. In this regard, following observation of Hon'ble SAT in the matter of *Ketan Parekh vs. SEBI*, (Appeal No. 2 of 2004, Order dated July 14, 2006) is worth mentioning:-

"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."

18. In the present case, it is established fact that *connected/related clients* of the noticee were connected/related with each other, the promoters of GCL, the noticee and HNFSL. The impugned trades of the *connected/ related clients* were executed from the terminal of the noticee. Out of those *connected/related clients*, Mr. Uday Vora, the director and a major shareholder of the noticee, traded substantially through it in the scrip of GCL during the investigation period. The other *connected/related clients* namely Sonal U. Vora is wife of the Mr. Uday Vora and Mr. Dhiren Vora is his brother. His father, H. N. Vora is director of HNFSL. Other connected/related clients, namely Mr. Rajeshkumar V. Patel and Ms. Kirtiben Rajesh Patel were promoters of GCL as well as shareholders in the noticee. Other *connected/related clients* as observed above, are also connected/related to it through its director Mr. Uday Vora.
19. In the instant case, the trades between the *connected/related clients* as found in the Report were executed by the noticee on a regular basis during the investigation period and they led to an inexplicable surge in volume and price in the illiquid scrip of GCL, whereas there were only few trades before and after the investigation period in that scrip. As there were no positive corporate announcements from GCL at the relevant point in time and the financials of GCL

were also very weak, it is difficult to understand the interest of these connected clients of the noticee in trading in the said scrip during the investigation period. I, therefore, in the facts and circumstances of the case, find that such unusual trading should have alerted the noticee that something was amiss in those trades.

20. In view of the above, I find that the fact that its own shareholders, its director, his family members and other connected/ related clients were involved in such trades in otherwise illiquid scrip reflects adversely on its integrity. Further, noticee being a registered stock broker should have exercised professional prudence and due care and diligence and should have been more careful while executing the trades on behalf of its clients who connected/related amongst themselves and with noticee and GCL. I, therefore, agree with findings of the DA given in the Report and find that the noticee has violated clauses A (1) and (4) of Code of Conduct specified for the stock brokers in Schedule II read with regulation 7 of Stock Brokers Regulations. I, also, am of the view that the penalty as recommended by the Designated Authority is commensurate with the contraventions found in this matter.
21. I, therefore, in the exercise of power conferred upon me by virtue of section 19 of the Securities and Exchange Board of India Act, 1992, read with regulation 28(2) Securities and Exchange Board of India (Intermediaries) Regulations, 2008, and regulation 13 of SEBI (Prohibition of Fraudulent and Unfair trade Practices relating the Securities Market) Regulations, 2003 hereby suspend the certificate of registration of the noticee i.e. M/s Parklight Investments Private Limited a trading member of BSE (SEBI Registration No. INB 011037836) for a period of one week.
22. This Order shall come into force immediately on expiry of twenty one days from the date of this Order.
23. A copy of this Order shall also be forwarded to BSE to ensure compliance with order in para 21 above.

DATE: December 31st, 2012

PLACE: MUMBAI

RAJEEV KUMAR AGARWAL

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA