

BEFORE THE SECURITIES APPELLATE TRIBUNAL  
MUMBAI

**Appeal No. 121 of 2011**

**Date of Decision : 25.07.2011**

CFL Securities Ltd.  
Bhupen Chambers,  
Dalal Street, Fort,  
Mumbai – 400 023.

...Appellant

Versus

Securities and Exchange Board of India  
SEBI Bhavan, Plot No. C-4A, G-Block,  
Bandra-Kurla Complex, Bandra (East),  
Mumbai – 400 051.

...Respondent

Mr. D.P. Desai, Advocate for the Appellant.

Dr. (Mrs.) Poornima Advani, Advocate with Mr. Ajay Khaire, Advocate for the Respondent.

CORAM : Justice N.K. Sodhi, Presiding Officer  
P.K. Malhotra, Member  
S.S.N. Moorthy, Member

Per : Justice N.K. Sodhi, Presiding Officer (Oral)

This appeal is directed against the order dated June 9, 2011 passed by the whole time member of the Securities and Exchange Board of India (for short the Board) suspending the certificate of registration of the appellant as a stock broker for a period of two months which period was to commence on the expiry of 21 days from the date of the order.

2. The appellant is a stock broker registered with the Board and a member of the National Stock Exchange of India Ltd. (NSE). The Board carried out investigations into the dealings in the scrip of Jagsonpal Pharmaceuticals Ltd. (for short the company) for the period from August, 2000 to December, 2000 and from July, 2001 to October, 2001. The scrip of the company is listed on the aforesaid stock exchange. Investigations revealed that the appellant had traded in the scrip during the investigation periods and had executed synchronized and matched trades with its

counter party brokers which trades, according to the Board, were artificial in nature and led to increase in artificial volumes. Enquiry proceedings were initiated against the appellant and a show cause notice was issued alleging violation of the provisions of Regulation 4 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 and the Code of Conduct prescribed for stock brokers in Schedule II read with Regulation 7 of the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992. The enquiry officer after affording an opportunity of hearing to the appellant came to the conclusion that the charge levelled against the appellant stood established on the basis of its trading pattern as reflected in the trade and order logs. Enquiry officer recommended that the certificate of registration of the appellant as a stock broker be suspended for a period of two months. On receipt of the enquiry report, the whole time member served the appellant with a fresh notice to show cause why the enquiry report be not accepted and its certificate of registration not suspended as recommended. The appellant filed its reply and on consideration of the material collected during the course of the investigations and the enquiry and taking note of the findings by the enquiry officer, the whole time member by the impugned order agreed with the findings of the enquiry officer that the appellant had executed structured trades and was guilty of creating artificial volumes in the scrip of the company. Hence this appeal.

3. We have heard the learned counsel for the parties who have taken us through the record and the impugned order. To be fair to the learned counsel for the appellant, he has not seriously challenged the findings recorded by the enquiry officer and the whole time member. In other words, the appellant has not disputed before us that it had executed structured and matched trades while trading in the scrip of the company. Such trades are artificial in nature and do not transfer the beneficial ownership in the traded scrip. Matched and synchronized trades only create artificial volumes which tend to lure the lay investors into trading. Such trades adversely affect the market and the Board rightly takes a serious view in the matter. In the case before us, the appellant had executed matched trades not only in the scrip of the company but in the

scrip of seven other companies during the periods of investigation. The learned counsel for the Board pointed out that after taking note of the trades executed by the appellant in other scrips which were also matched and synchronised, its certificate of registration has been suspended for different periods. This fact could not be disputed by the learned counsel for the appellant and rather it has been admitted in the memorandum of appeal that the certificate of registration of the appellant had been suspended for executing similar trades in other scrips as well. It is, thus, clear that the trades executed by the appellant in the scrip of the company were not isolated trades and that it had been executing synchronized and artificial trades in other scrips as well. In these circumstances, the period of two months for which the certificate of registration of the appellant has been suspended cannot be said to be excessive. The learned counsel for the appellant contended that the whole time member while suspending the certificate has observed that the suspension shall come into force after the expiry of 21 days from the date of the order. He wants this period to commence from the date of the order itself. We don't think that the whole time member erred in allowing the appellant 21 days time to approach this Tribunal in appeal. Since the appellant has already surrendered its certificate of registration and is out of the market since long, the prayer now made on behalf of the appellant is accepted and it is directed that the period of two months for which the certificate of registration has been suspended shall commence from the date of the impugned order. With this modification, the appeal is disposed of with no order as to costs.

Sd/-  
Justice N.K. Sodhi  
Presiding Officer

Sd/-  
P.K. Malhotra  
Member

Sd/-  
S.S.N. Moorthy  
Member

25.07.2011

Prepared and compared by:  
msb