

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Section 12 (3) of the Securities and Exchange Board of India Act, 1992 read with Regulation 27 of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008

In respect of

Sr. No.	Name of the Noticee	SEBI Registration No.
1	Transglobal Securities Limited	INB011149433 and INB/F231149437

In the matter of trading activity of Praveen Daga HUF and Smt. Chitra Vishwanath

1. The present proceeding is originating from the Enquiry Report dated July 12, 2018, submitted by the Enquiry Officer in terms of regulation 27 of the SEBI (Intermediaries) Regulations, 2008 as it stood at the relevant point of time prior to its amendment vide SEBI (Intermediaries) (Amendment) Regulations, 2021, w.e.f. January 21, 2021 (hereinafter referred as “**the Intermediaries Regulations**”), wherein the Designated Authority (hereinafter referred to as “**the DA**”), based on various factual findings and observations so recorded in the said Enquiry Report, has recommended that Transglobal Securities Ltd. (hereinafter referred to as “**the Noticee/TGSL**”) as a registered stock broker be prohibited from registering fresh/new clients for a period of 3 months.
2. The aforesaid Enquiry Report was submitted pursuant to a proceeding initiated based on the findings of certain facts unearthed in the course of an investigation conducted by the Securities and Exchange Board of India (hereinafter referred to as “**the SEBI**”) upon receipt of a reference from the National Stock Exchange of India Limited (hereinafter referred to as “**NSE**”) pertaining to the trading activities of certain clients viz. Praveen Daga HUF and Smt. Chitra Vishwanath (hereinafter referred to as “**Smt. Chitra**”) for possible front running by the said clients during the period October 01, 2008 to November 30, 2008 (hereinafter referred to as “**the Investigation Period**”). It was also *prima facie* observed in the aforesaid investigation that the *Noticee* had dealt/traded on

behalf of Smt. Chitra without receiving any orders from her and therefore, had allegedly carried out activities of unregistered Portfolio Manager during the period December 20, 2008 to February 02, 2009 (hereinafter referred to as '**the relevant period**'). Further, it is observed that certain modifications were carried out by the *Noticee* in the client accounts/codes in favour of Smt. Chitra whereby profits from the account of various clients/entities related to the *Noticee* were transferred to the client account of Smt. Chitra. It is also noted that the *Noticee* had allotted multiple client IDs to the same client during the relevant period.

3. In view of the aforesaid finding of facts, a DA was appointed to inquire into and to submit a report pertaining to the aforesaid acts of the *Noticee* and into the violations of Section 12(1) of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "**the SEBI Act**"), regulation 3 of SEBI (Portfolio Managers) Regulations, 1993 (hereinafter referred to as "**the PMS Regulations**"), regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as "**the Stock Brokers Regulations**") read with Clause A (2) of the Code of Conduct for Stock Brokers as specified in Schedule II of the Stock Brokers Regulations and SEBI Circular No. SMDRP/Policy/Cir-39/2001 dated July 18, 2001, allegedly committed by the *Noticee*.
4. The DA issued a show cause notice dated July 08, 2011 to the *Noticee* under regulation 25 of the Intermediaries Regulations (as applicable at the relevant time) asking the *Noticee* to show cause as to why action be not taken against it under regulation 27 (as applicable at that time) of the Intermediaries Regulations. In response to the same, the *Noticee* vide letter dated August 08, 2011, sought copies of certain documents including copy of the Investigation Report (hereinafter referred to as "**the IR**") to enable it to submit its response to the said show cause notice. The relevant documents were provided to the *Noticee* vide letter dated August 22, 2011. Subsequently, vide its letter dated September 27, 2011, the *Noticee* submitted its reply. Thereafter, vide its letter dated October 10, 2011, the *Noticee* requested for cross examination of Smt. Chitra and other entities in the matter. Meanwhile, the *Noticee* has filed an application for settlement of the violations alleged in the show cause notice under the consent settlement mechanism. The application, after due consideration was not acceded to and the outcome of the same was communicated

to the *Noticee* vide letter dated September 05, 2012. Subsequently, to ensure fair trial and grant of ample opportunity, cross examination of Smt. Chitra was provided to the *Noticee* on April 10, 2014 and September 02, 2014. However, Smt. Chitra failed to appear for the cross examination on both the occasions. Meanwhile, the *Noticee* vide letters dated April 28, 2014 and June 30, 2016 made further submissions and additional submissions, respectively.

5. The background facts necessary for the present proceedings are narrated in brief, hereunder:
 - i. The *Noticee*, Transglobal Securities Limited, is a stock broker registered with SEBI and is a member of the NSE and the Bombay Stock Exchange Limited (hereinafter referred to as “**the BSE**”).
 - ii. A reference was received about the trading activities of Smt. Chitra in the Future & Options (“**F & O**”) segment through the *Noticee* wherein it was observed that Smt. Chitra was enrolled as a client of the *Noticee* on December 19, 2008 to trade in the F & O segment. It is noticed that Smt. Chitra had deposited an amount of INR 2.5 Lakh as margin money with the *Noticee* on December 20, 2008 and in return, had received INR 6.40 Crore as profit during the relevant period.
 - iii. It is observed that Smt. Chitra vide her letter dated December 20, 2008 while authorising the *Noticee* to trade in the F & O segment on her behalf had also instructed the *Noticee* to stop trading in her account in the event of a loss exceeding INR 10 Lakh in her account. It is seen that Mr. Sunil Gupta, director of the *Noticee*, had placed orders in the F & O segment on behalf of Smt. Chitra during the relevant period, which was also admitted by the Authorised Representative and Director of the *Noticee* i.e Mr. Sunil Gupta in his deposition before the Investigating Authority (hereinafter referred to as “**the IA**”).
 - iv. The details of trades of Smt. Chitra on December 26, 2008, December 29, 2008 and January 7, 2009 were analysed on a sample basis in the investigation. The said sample dates were selected based on the maximum amount of profit earned by her on those dates. From the analysis of these details, it is noticed that there were modifications that were carried out by the *Noticee* in the client accounts/codes in favour of Smt. Chitra

whereby profits from the account of various clients/entities related to the *Noticee* were transferred to the client account of Smt. Chitra.

- v. It is seen that the *Noticee* had allotted multiple client IDs to the same client during the relevant period.
6. On the basis of the aforesaid factual details, the DA, after considering the replies filed by the *Noticee*, has *inter alia* observed the followings in his report:

“20. Clearly, from the above observations, I am convinced that the Noticee was managing the portfolio of Ms. Chitra in the F & O segment during the relevant period and in the process, Noticee was placing the orders on behalf of Ms Chitra and thereby undertaking the activities of unregistered PMS w.r.t trading/dealings on behalf of Ms Chitra. In view of the above, I hold that Noticee has violated the provisions of section 12(1) of the SEBI Act read with Regulation 3 of the PMS Regulations and the provisions of clause A (2) of the Code of Conduct for Stock Brokers as specified in Regulation 7 of the Stock Broker Regulations.

“22..... I am of the view that client code modifications were done by the dealers of Noticee and profits in these client accounts were shifted to the account of Ms Chitra in a highly suspicious manner. Clearly, from the above observations and admission by the Noticee, I hold that Noticee has violated the provisions of Circular No. SMDRP/Policy/Cir-39/2001 dated July 18, 2001 and also Clause A (2) of the Code of Conduct for Stock Brokers as specified in Regulation 7 of Stock Broker Regulations.

“23.....In view of the above observations and admission of the Noticee, I observe that Noticee has allotted multiple client codes to a single client and failed to exercise due skill and care in the conduct of its business as a stock broker. Therefore, I hold that Noticee has violated the provisions of SEBI Circular No. SMDRP/Policy/Cir-39/2001 dated July 18, 2001 and also clause A(2) of the Code of Conduct for Stock Brokers as specified in Regulation 7 of Stock Broker Regulations.”

7. After considering the Enquiry Report, a Show Cause Notice dated March 09, 2021 (hereinafter referred to as “**SCN**”) enclosing therewith the Enquiry Report of the DA, was issued to the *Noticee* under regulation 27(1) of the Intermediaries Regulations, 2008 calling upon to show cause as to why action as recommended by the DA or any other direction/measure as may be deemed fit, should not be issued against /imposed on it. The SCN further advised the *Noticee* to submit its reply, if any within 21 days of receipt of the said SCN.
8. Accordingly, in response to the SCN the *Noticee* has made submissions vide its letter dated March 23, 2021 which are summarised hereunder:

- i. As Smt. Chitra intended to trade in F & O segment utilizing F&O expertise of the *Noticee*, she instructed the *Noticee* in writing to trade in F & O segment. It is not the case that dealers of the *Noticee* had executed trades without her authorization.
- ii. Smt. Chitra was duly informed of all her trades and she has acknowledged all contract notes issued to her confirming the trades.
- iii. The charge of unregistered Portfolio Management Services is based on account of trading of one single client.
- iv. The *Noticee* became aware of the alleged modifications post receipt of notice from SEBI. The *Noticee* as a broker was not aware of the mechanism, wherein brokers can track that dealers have changed client codes.
- v. The *Noticee's* arbitrage business was conducted by dealers from various branches on behalf of the clients and not by the Directors/Owners of the *Noticee*.
- vi. At the time of alleged modification none of the clients complained to the *Noticee* of any anomaly in their trading accounts pursuant to receipt of contract notes.
- vii. The trade files received from the NSE identified trades as done by Smt. Chitra's client code and formed the basis of client account settlement. As the monitoring software of the *Noticee* was based on back-office data, it always reflected Smt. Chitra's client codes.
- viii. The proprietary trades as per the NSE trading software could never be modified thus no changes were identified in the proprietary trades.
- ix. The alleged modification had got no nexus with the on-market trading and as a result of the same, market or investors have not been affected in any manner.
- x. The *Noticee* only earned the legitimate brokerage from the said trades.
- xi. The alleged assigning of multiple codes in stray cases are instances of erroneous punching of client codes by the *Noticee's* dealer on behalf of the Clients. The punching of erroneous client code was bonafide human error without any sinister intent or design.
- xii. The *Noticee* has fully cooperated in the investigations conducted by SEBI and provided all the requisite details immediately.
- xiii. The *Noticee* has not indulged in any manipulation/fraud as the SCN also does not mention allegations of violations of PFUTP Regulations/insider trading. It has

- not made any gains or derived unfair advantage as a result of alleged violations. As a result of alleged trades, no loss has been caused to the investors.
- xiv. The *Noticee* had an impeccable track record in terms of compliance with the applicable Rules and Regulations.
 - xv. There are no complaints against the *Noticee* either by its clients or other brokers or investors or by anybody else.
9. In conformity with the principles of natural justice, an opportunity of personal hearing was provided to the *Noticee* on August 24, 2021, communication of the which was issued vide hearing notice dated July 01, 2021. In response to the said hearing notice, the *Noticee* vide its letter dated July 30, 2021 has submitted as under:
- i. The *Noticee* has replied on March 25, 2021 in response to the SCN wherein it has replied in detail on all observations made by the DA in the Enquiry Report and it has put forward fact of the case before your esteemed authority.
 - ii. The *Noticee* once again reiterates that it has not carried out any unregistered Portfolio Management Service activities as alleged and have not diverted any so called profit to Smt. Chitra's account. The allegation and finding are baseless and are without bringing any cogent material, documentation or evidence on the record.
 - iii. The cross examination as requested by the *Noticee* has not happened till date as Smt. Chitra was not present for the cross examination so the allegation simply based on the statement of Smt. Chitra is against the principle of natural justice.
 - iv. The *Noticee* has in this enquiry supported and submitted all the relevant documents and information called from time to time which were in its possession.
 - v. All the transaction with Smt. Chitra was through proper banking channel, and therefore the *Noticee* once again denies the allegation made in the SCN and its submissions made vide letter dated March 23, 2021 be considered as final submissions.
 - vi. The *Noticee* further objects to the recommendation in the Enquiry Report to prohibit it to register new/fresh clients for the period of 3 months as the enquiry

conducted is purely on the surmises, suspicion and conjectures and without bringing any cogent material on records.

- vii. The *Noticee* humbly submits to drop the proceeding considering the fact that the case and its submissions will remain the same as it has not indulged in any kind of illegal activities which can be proved from its track records.

Subsequently, the *Noticee* vide its email dated August 23, 2021 has stated that it has already submitted its reply dated July 30, 2021 (inadvertently mentioned as August 03, 2021 in the said email) in which it has submitted facts of the matter in detail and therefore has requested to consider its earlier submissions as final submission and to conclude the matter accordingly.

CONSIDERATION OF ISSUES:

10. I have carefully perused the SCN including the Enquiry Report issued to the *Noticee*, the written submissions made by the *Noticee* and other material available on record. The issues which arise for my consideration in the present proceeding are as under: -

I. Whether the *Noticee* has acted as unregistered Portfolio Manager on behalf of its client viz. Smt. Chitra and hence has provided/undertaken unregistered Portfolio Management Service?

II. Whether the *Noticee* has indulged in client code modifications and has transferred the profits from various accounts to the account of Smt. Chitra?

III. Whether the *Noticee* has allotted multiple client codes to a single client?

11. Before I proceed to examine the charges vis-à-vis the evidences available on record, it would be appropriate at this stage to refer to the relevant provisions of the law, which are alleged to have been violated by the *Noticee* and the same are reproduced below for ease of reference:

THE SEBI ACT, 1992

Registration of stock brokers, sub-brokers, share transfer agents, etc.

12.(1) No stock broker, sub-broker, share transfer agent, banker to an issue, trustee of trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and such other intermediary who may be associated with securities market shall buy, sell or deal

in securities except under, and in accordance with, the conditions of a certificate of registration obtained from the Board in accordance with the regulations made under this Act:

THE PMS REGULATIONS, 1993

3. Registration as portfolio manager

No person shall act as portfolio manager unless he holds a certificate granted by the Board under these regulations:

THE STOCK BROKERS REGULATIONS, 1992

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 Broker

A. General.

(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.

I. Whether the Noticee has acted as unregistered Portfolio Manager on behalf of its client viz. Smt. Chitra and hence has provided/undertaken unregistered Portfolio Management Service

12. It is noted that SEBI had conducted an investigation into the dealings of Smt. Chitra along with other entities for suspected front running, in the cash segment of the NSE, during which it was noticed that orders of the aforementioned client/entities were allegedly placed ahead of the trades/orders of Life Insurance Corporation of India (“LIC”). During the course of the said investigation, it was observed from the copy of income tax returns filed by Smt. Chitra that her income had increased substantially from INR 3,47,146 during the Financial Year (“FY”) 2006-07 to INR 7,24,74,570 in FY 2007-08 and INR 12,30,02,333 in FY 2008-09 i.e., an increase by 214 times as against the income that was reported by her for the FY 2006-07. It was further observed that the major portion (almost 95%) of increase in her income came from the profits and gains arising out of speculative business activity. It is noted from the details provided by the NSE that Smt. Chitra had made huge profits from her trading/dealings in the F & O segment of the NSE through the Noticee, who was her stock broker during the relevant period.

13. Further, from the ledger statement and KYC documents of Smt. Chitra available with the *Noticee*, it is noted that Smt. Chitra was enrolled as a client of the *Noticee* on December 19, 2008 to specifically trade in the F & O segment of the NSE. It has also been noticed that Smt. Chitra had vide her letter dated December 20, 2008 authorized the *Noticee* to deal on her behalf in the F & O segment of the NSE. In this regard, Smt. Chitra had paid INR 2.5 Lakh as margin money to the *Noticee* on December 20, 2008 and in return, Smt. Chitra received INR 6.40 Crore as profit during the relevant period from the *Noticee*. I observe from the authorization letter dated December 20, 2008 given by Smt. Chitra to the *Noticee* that she had committed to bear loss up to INR 10 Lakh and in the event of the loss exceeding INR 10 Lakh, she had given specific instructions to the *Noticee* to stop trading in her account.
14. In the context of the allegations levelled against the *Noticee* in the SCN that it had acted as a Portfolio Manager for the trades/dealings of its client viz. Smt. Chitra for which no registration of PMS was obtained by the *Noticee*, the above acts of the *Noticee* of indulging in execution of trades in the account of Smt. Chitra and thereby managing her portfolio of securities are alleged to be acts of undertaking unregistered Portfolio Management Service (hereinafter referred to as “**PMS**”). In this respect, I further note from the record that the said fact of executing trades in the account of Smt. Chitra has been acknowledged by the *Noticee*. It would be pertinent to refer to the relevant extracts from the statement of the Authorised Representative and Director of the *Noticee* i.e Mr. Sunil Gupta, which was recorded by the IA and reproduced in the SCN, which are as under:

“Orders were placed by the Dealers and order decision was taken by me in consultation with my research team. Mr Mahendra Ranga manages the front desk and the client level interacting. I have given instructions to Mahendra Ranga to execute the orders of Chitra Vishwanath.”

It is evident from the aforesaid submission made before the IA that Mr. Sunil Gupta, who is the director and authorized representative of the *Noticee*, was placing orders in the account of Smt. Chitra in the F & O segment of NSE during the relevant period. Further, Smt. Chitra in her deposition given on oath on February 9, 2011 before the IA has stated the following:

“I don’t know anything about trading. The Brokers were carrying out the trades. I have not given any trading limit to the broker. I have given the full responsibility to the broker to deal on my behalf. I

don't know any scrips at all. So there is no question of me giving any instructions to the brokers, to deal in any scrips. Earlier also I mentioned to you that I don't give any instruction to any broker. Whenever the broker asks for margin i.e deposit, I used to give him."

"I don't place orders at all. I authorize the brokers to deal on behalf of me for the following

a. *Transglobal securities Pvt Ltd- Mr Mahendra Ranga (contact person)*

b. *....."*

15. I note that in response to the above allegation, the *Noticee* vide its letters dated September 27, 2011 and June 30, 2016 has submitted as under:

"Smt Chitra intended to trade in the Future & Options segment and not cash segment. She intended to utilize Futures and Options expertise of Transglobal and hence instructed us in writing, requiring us to trade as per our expertise. It may be noted that it is not the case that our dealers had executed trades without client authorization. Further, there is no complaint from the clients of the Noticee in this regard. The Client was duly informed of all trades and has acknowledged all contract notes issued to her confirming the trades. The charge of unregistered PMS is based on account of trading of one single client."

The *Noticee* while reiterating its above stand, has further submitted vide its letter dated March 23, 2021 that:

As Smt. Chitra intended to trade in F & O segment utilizing F&O expertise of the Noticee, she instructed the Noticee in writing to trade in F & O segment. It is not the case that dealers of the Noticee had executed trades without her authorization. Smt. Chitra was duly informed of all her trades and she has acknowledged all contract notes issued to her confirming the trades. The charge of unregistered PMS is based on account of trading of one single client. Further, there is no complaint from the clients of the Noticee in this regard.

16. From the above, I note that the *Noticee* has not disputed the findings of facts as narrated in the SCN that it was in fact placing orders in the account of its client viz. Smt. Chitra in the F & O segment of the NSE during the relevant period. In response to the charge of managing the portfolio of Smt. Chitra by executing trades in her account thereby acting as a Portfolio Manager of Smt. Chitra in an unauthorized manner, the *Noticee* has primarily contended that there is no complaint by or on behalf of Smt. Chitra; there is also no charges that trades executed were unauthorised trades and executed without her consent and knowledge. I have gone through the record and submissions advanced by the *Noticee* refuting the charge of rendering unregistered PMS. It is observed that the submissions of the *Noticee* are patently erroneous so far as they relate to the charge of rendering PMS for

which no registration was granted to it. The SCN has not proceeded to charge the *Noticee* for executing unauthorised transaction in the account of Smt. Chitra, neither it proceeds to charge it for not furnishing the contract note within time or for not providing information including the statement of account to her so as to allege that the trades were executed by the *Noticee* without the knowledge of the *Noticee*. The charge in this case is rather categorical and specific only to rendering PMS for which, no authorization/registration was given by SEBI to the *Noticee*. The *Noticee*, instead of advancing its submission to rebut the allegation of running PMS in an unauthorised manner, has preferred only to admit of having executed trades in the account of Smt. Chitra by taking a plea that it has necessary expertise in the F & O segment of the market.

17. To put the aforesaid deliberation in perspective, I find it appropriate to capture the legislative and regulatory scheme and mandate of the SEBI Act, 1992, the PMS Regulations and the Stock Brokers Regulations. Section 12(1) of the SEBI Act, 1992 clearly mandates that a Portfolio Manager shall not buy, sell or deal in securities except under, and in accordance with, the conditions of the certificate of registration obtained from SEBI in accordance with the PMS Regulations. Further, I note that the PMS Regulations, *inter alia*, provide the framework for regulating the activity of entities who, are in the business of providing PMS in respect of portfolio of securities or funds of the client. The PMS Regulations seek to create a structure within which, Portfolio Manager will operate and also make them duly accountable for their PMS by requiring them to comply with the criteria set out under the relevant provisions of the PMS Regulations. In this regard, it is noted that regulation 3 of the PMS Regulations stipulates that no person shall act as Portfolio Manager unless he holds a certificate granted by SEBI under these regulations. I note that the SEBI has a well-defined framework w.r.t placement of orders by the clients, including mandatory requirement for maintaining the order book, call recordings in case orders from clients are received through phone etc., as enshrined in the PMS Regulations. This framework in no uncertain terms indicates that orders in the securities market have to be placed by the respective clients themselves and the stock brokers and/or third parties shall not place orders on behalf of their clients (except in case of proprietary trades of the broker wherein the representative of the broker places the orders). Also, regulation 7 of the Stock Brokers Regulations casts an obligation on a

stock broker that he shall at all time abide by the Code of Conduct as specified in Schedule II. Similarly, Clause A (2) of the said Code of Conduct mandates that a stock broker shall act with due skill, care and diligence in the conduct of all his business.

18. As noted above, one of the charges against the *Noticee* is indulging in PMS activities in respect of its client Smt. Chitra while regulation 3 of the PMS Regulations prohibits the act of Portfolio Manager without holding a requisite certificate issued by SEBI. Hence, before proceeding further to examine the charge, I find it relevant to peruse the relevant provision including the regulation 2 (cb) of the PMS Regulations that defines a 'Portfolio Manager' as "*any person pursuant to a contract or arrangement with a client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio management or otherwise) the management or administration of a portfolio of securities or funds of the client, as the case may be*".

Further, I note that the Bye-law (4) of the BSE under subject 'Order Management' contained in Chapter VII of the bye-laws (of the BSE) stipulates the following:

Order Instructions

"Trading Members shall ensure that instructions for placing an order is obtained from constituents prior to any order being placed on the Exchange and shall keep the relevant documents & records of such instructions and of the completion or otherwise of the orders as per the Rules, Bye-laws & Regulations of Exchange and all other applicable laws"

19. I note that Smt. Chitra claims to be ignorant about the securities market much less about the F & O segment and the *Noticee* claims to have expertise in the segment. I find no submission by the *Noticee* to suggest that it was Smt. Chitra who used to place trade orders or issue instructions to it for trading and based on such instruction as received from her, trades in her account were being executed. It is not the case of the *Noticee* that the authorization dated December 20, 2008 given by Smt. Chitra to the *Noticee* is false or no such letter was ever executed by Smt. Chitra. There is no denial to the fact that it was the *Noticee* who had collected an amount of INR 2.5 Lakh from Smt. Chitra as margin money for the F & O trades. Therefore, the claim that the *Noticee* had transferred profit of INR 6.40 Crore during the relevant period to her, does not come to its help to absolve it from the allegation of rendering PMS service to Smt. Chitra. Rather, the above facts further strengthen the allegation that it was the *Noticee* which was placing the orders on behalf of its client (Smt. Chitra) in the F & O segment of the NSE and no instruction was ever

received by the *Noticee* from its client which further establishes that the *Noticee* was indeed indulging in giving services of a PMS to Smt. Chitra. The characteristics and features of the trading activity of the *Noticee* in the F & O segment for and on behalf of its client viz. Smt. Chitra, as discussed in the preceding paragraphs, clearly demonstrates the nature of a discretionary PMS rendered by the *Noticee* to Smt. Chitra in the F & O segment of the NSE.

20. I further find it very strange that the client herself in her statement claims to have no knowledge pertaining to trades of securities market while at the same time she has decided to confine her trades to only in F & O segment which normally attracts sophisticated traders who indulge in trades in F & O segment with proper care and caution. The *Noticee* has also not brought out any material to demonstrate that the client was a regular trader in the securities market and has also not made out a case that only in a few instances pertaining to F & O, it has provided some additional services to her which were incidental to its stock broking activities. The *Noticee* has also not offered any explanation detailing the circumstances which caused the client to issue such an authorization letter in favour of the *Noticee* and therefore, in the absence of any justification provided by the *Noticee* to defend the execution of trades made by it in the account of Smt. Chitra, I find that the submissions that contract notes were regularly sent to the client and there is no complaint from the clients will not come to the aid of the *Noticee* in any way in seeking exoneration from the charge of indulging in activities of an unregistered PMS.
21. As held above, the *Noticee* as a stock broker was placing huge volumes of orders in the F & O segment of the NSE on behalf of Smt. Chitra and the aforesaid activity of the *Noticee* on behalf of its client is a typical instance of PMS which is offered in terms of the PMS Regulations. Further, the contents of the letter dated December 20, 2008 are also suggestive of a typical discretionary PMS sought by Smt. Chitra from the *Noticee*. Therefore, I observe that the aforesaid conduct/activity of the *Noticee* in placing the orders on behalf of Smt. Chitra in the F & O segment and subsequently executing these orders as trades, is akin to undertaking 'discretionary PMS activity' by the *Noticee* for its client.
22. In view of the above deliberations and observations, I have no hesitation in holding that the *Noticee* was managing the portfolio of Smt. Chitra in the F & O segment of the NSE

during the relevant period and in the process, the *Noticee* was placing the orders on behalf of and in the account of Smt. Chitra and thereby, has indulged in the activities of unregistered PMS w.r.t trading/dealings on behalf of Smt. Chitra. Therefore, I note that the issue no. 1 i.e., whether the *Noticee* has acted as unregistered Portfolio Manager on behalf of its client viz. Smt. Chitra and hence provided/undertaken unregistered Portfolio Management Service, has to be answered in affirmative. In view of the above, the above noted conduct of the *Noticee* has clearly resulted in the contravention of the provisions of section 12(1) of the SEBI Act read with regulation 3 of the PMS Regulations and the provisions of clause A (2) of the Code of Conduct for Stock Brokers prescribed under Schedule II read with regulation 7 of the Stock Brokers Regulations by the *Noticee*.

II. Whether the Noticee has indulged in client code modifications and had transferred the profits from various accounts to the account of Smt. Chitra?

23. Moving on to the second issue i.e., whether the *Noticee* has indulged in client code modifications and has transferred profits from various accounts to the account of Smt. Chitra, the SCN records that the *Noticee* has indulged in client code modifications in various client accounts and the profits in the accounts of various other related clients/entities of the *Noticee* were transferred to the client account of Smt. Chitra during the relevant period. In this regard, I observe from paragraph 21 of the SCN that the *Noticee* has not disputed the facts/details of those client accounts, which were related to the *Noticee*, whose client codes were modified by the *Noticee* w.r.t the profitable trades in those accounts thereby illegally shifting the profits from those accounts in favour of Smt. Chitra's client account.
24. The aforesaid admission by the *Noticee* is also evident from its letter dated March 23, 2021 filed in response to the SCN, wherein it is submitted as under:

"The Noticee became aware of the alleged modifications post receipt of notice from SEBI. The Noticee as a broker was not aware of the mechanism, wherein brokers can track that dealers have changed client codes. The Noticee's arbitrage business was conducted by dealers from various branches on behalf of the clients and not by the Directors/Owners of the Noticee. At the time of alleged modification none of the clients complained to us of any anomaly in their trading accounts pursuant to receipt of contract notes. The trade files received from NSE identified trades as done by Smt. Chitra's Client code and formed the basis of client account settlement. As our monitoring software was based on back-office data

it always reflected Smr. Chitra client codes. Proprietary trades as per NSE trading software could never be modified thus no changes were identified in the proprietary trades. The alleged modification had got no nexus with the on-market trading and as a result of the same, market or investors have not been affected in any manner. The Noticee only earned the legitimate brokerage from the said trades”

25. I observe from the above that the *Noticee* has admitted to the fact that client code modifications were carried out by its dealers in various accounts of clients/entities related to the *Noticee* and the profits generated in those accounts were illegally shifted to the client account of Smt. Chitra during the relevant period. The *Noticee* has explained that it was not aware of the modifications which were carried out by its dealers, as no complaints were received from any of the clients and that no profit has been made by the *Noticee* as a result of these modifications etc. I note that apart from shifting the blame for those client code modifications to its dealers the *Noticee* has not made any attempt to substantiate its claims of innocence with any document in support thereof so as to rebut the charge of illegally shifting the profits from the client account of various entities (connected to the *Noticee*) to the account of Smt. Chitra. The conduct displayed by the *Noticee* in shifting the profits from various client accounts to the account of Smt. Chitra is unbecoming of a registered stock broker and it has resorted to manipulations of client code so as to manipulate profit booking in the account of a specific client in complete disregard of regulatory provisions and provisions of law. The client codes were not modified on account of genuine mistakes, punching errors etc. but were made with ulterior motive. I find that the client code modifications were done by the dealers of the *Noticee* and profits from those client accounts were shifted to the account of Smt. Chitra in a highly suspicious manner and the *Noticee* is not in a position to properly explain the same. In this regard, I observe that apart from putting the onus on its own dealers, who are its employees and are not expected to make any such client code modifications without the instructions from their employer (*Noticee*) or feigning ignorance and distancing itself from the misconduct, the *Noticee* has not come up with any cogent explanations to address these issues at its end.
26. Looking holistically at the alleged conduct of the *Noticee* who is a registered market intermediary, I find that by no standard, the aforesaid conduct of the *Noticee* can be said to be fair and honest and the said conduct overwhelmingly proves that the *Noticee* has not

acted with due skill, care and diligence in the conduct of its business. Further, the endeavor of the *Noticee* to distance itself from this charge by submitting that the *Noticee*'s arbitrage business was conducted by dealers from various branches on behalf of the clients and not by the Directors/Owners of the *Noticee*, cannot be an acceptable explanation in the absence of any supporting evidence to substantiate such a contention. Therefore, such an explanation appears to be just an afterthought exercise to evade the outcome of the proceedings. It may also be noted that the scope of the instant proceeding is not to analyze the actual impact and consequences of the conduct of the *Noticee* (like non-existence of any complaints or absence of any profits out of these trades etc.) but to examine as to whether or not, the *Noticee* has acted in a manner expected of a market intermediary and the answer to the same manifestly goes against the *Noticee*. In my considered view, it is immaterial if the *Noticee* has not made any gains or derived unfair advantage as a result of the alleged violations and it is immaterial if no loss has been caused to the investors as a result of those trades. The fact that is undeniably clear before me is that the acts of client code modifications made in the accounts of certain clients for no bonafide reasons and the acts of transferring profits from those accounts in favour of another specific client account is certainly a conduct which is not permitted by SEBI Act and the governing regulations of SEBI. In view of the aforesaid discussion, I have to hold that the *Noticee* has actually indulged in client code modifications and has consciously transferred the profits from various accounts to the account of Smt. Chitra and therefore, the issue no. 2 is also answered in affirmative. As a consequence, I hold that the *Noticee* has violated the provisions of Circular No. SMDRP/Policy/Cir-39/2001 dated July 18, 2001 and also Clause A (2) of the Code of Conduct for Stock Brokers as specified in Schedule II read with regulation 7 of the Stock Brokers Regulations.

III. Whether the Noticee has allotted multiple client codes to a single client?

27. In respect of the third issue i.e., whether the *Noticee* has allotted multiple client codes to a single client as alleged in the SCN, I note that the *Noticee* vide its reply dated March 23, 2021 has admitted the fact that it had inadvertently allocated multiple client codes to the same client due to erroneous punching by its dealers. The said submission is reproduced as under:

“The alleged assigning of multiple codes in stray cases are instances of erroneous punching of client codes by the Noticee’s dealer on behalf of the Clients. The punching of erroneous client code was bonafide human error without any sinister intent or design.”

28. I find that allotting an unique client code by a stock broker to its client is a very basic, essential and integral part of having a robust risk management system for the securities market. It also facilitates seamless flow of relevant details as far as trades of clients are concerned. It is even more important to have a unique identifier for a client as the exchange platform is anonymous, where counterparty identities are not known and thus the unique client code becomes so crucial to facilitate the successful execution of trades done by the clients. It is in this background that I view the conduct of the *Noticee* in allotting multiple client codes to a client is so grave that it can destabilize the very foundation of a strong securities market. It is even more glaring that the same has been done by a registered market intermediary who has committed such a grave misconduct and yet tries to escape from it by only casually admitting them to be punching errors and has no explanations to support its acts of creating such erroneous client codes. The said casual approach of the *Noticee* is also reflected from the fact that the *Noticee* has not brought anything on record to suggest that it has taken any effort to rule out these possibilities in future.
29. In view of the above observations and admission of the *Noticee*, I hold that the *Noticee* has allotted multiple client codes to a single client and has failed to exercise due skill and care in the conduct of its business as a stock broker and thereby has violated the provisions of SEBI Circular No. SMDRP/Policy/Cir-39/2001 dated July 18, 2001 and also Clause A(2) of the Code of Conduct for Stock Brokers as specified in Schedule II read with regulation 7 of the Stock Brokers Regulations. Thus, the third issue i.e., whether the *Noticee* has allotted multiple client codes to a single client, is also answered in affirmative.
30. At this stage, I find it appropriate to deal with the contention of the *Noticee* in respect of its request to cross examine Smt. Chitra. In this regard, as recorded above, that despite opportunity of cross examination of Smt. Chitra provided to the *Noticee* on April 10, 2014 and September 02, 2014, the cross examination could not be conducted as Smt. Chitra failed to appear for the cross examination on both the occasions. Further, I find that apart from merely stating that the said cross examination has not happened till date, the *Noticee*

has not been able to demonstrate as to how the absence of the said cross examination has, in any manner, caused any prejudice to or impacted its case on merit or has caused any disability on its part to file its reply, especially when in the present matter, the *Noticee* has either accepted the allegation or not disputed the findings made against it. In fact, Smt. Chitra in her deposition as recorded in paragraph 14 above, has *inter alia* stated that *“she had given the full responsibility to the broker to deal on her behalf. She did not know any scrips at all. So there was no question of her giving any instructions to the brokers”*. The said position/deposition has also not been disputed by the *Noticee* in any of its replies dated September 27, 2011, June 30, 2016 and March 23, 2021 as pointed out in paragraph 15 above. From the bare perusal of the aforesaid replies, it is amply clear that the *Noticee* was on its own executing trade in F & O as per their expertise in the account of Smt. Chitra.

31. It is also observed that the allegations and charges alleged in the SCN are not based alone on the strength of the statement given by Smt. Chitra but on the basis of other material available on record including details received from the NSE and the admission of charges and allegation, by the *Noticee* itself. For example, the statement of the *Noticee* that Smt. Chitra wanted to trade in F & O segment on the NSE and therefore she approached the *Noticee* for their expertise in the said segment is further corroborated when the *Noticee* has consistently submitted and admitted in its replies that *“as Smt. Chitra intended to trade in F & O segment utilizing F&O expertise of the Noticee, she instructed the Noticee in writing to trade in F & O segment*. As indicated above, the *Noticee* has not disputed or denied having received the authorization letter dated December 20, 2008 from Smt. Chitra for trading in F & O segment of the NSE on her behalf. In fact, as recorded in para 14 above, the Authorised Representative and Director of the *Noticee* i.e Mr. Sunil Gupta has admitted that *“Orders were placed by the Dealers and order decision was taken by me in consultation with my research team. Mr. Mahendra Ranga manages the front desk and the client level interacting. I have given instructions to Mahendra Ranga to execute the orders of Chitra Vishwanath.”* Further the fact that Smt. Chitra had no prior experience of trading in securities market and despite her complete ignorance about the securities market, she preferred to trade only in the F & O segment on the NSE, remains undisputed by the *Noticee*. The *Noticee* has not even brought any material to controvert the above fact that Smt. Chitra had no prior exposure to the market. The *Noticee* has also not disputed the issuance of the authorization letter by Smt. Chitra and

lastly, the nature of trades executed in the account of Smt. Chitra are more than sufficient to establish the violation alleged against the *Noticee*, more particularly, in the absence of any explicit denial of the above facts. Therefore, I find no merit in the contention of the *Noticee* that in the absence of the cross examination, the charges against the *Noticee* would not get substantiated based on the other materials already available on record.

32. Before summarizing my observations and discussions in the foregoing paragraphs, I must note here that an entity which is granted registration to operate as a stock broker is required to act in a manner and to comply with all applicable regulatory requirements which are in the best interests of its clients and also to uphold the integrity of the securities market. As the arena of securities market is fundamentally vast and complex, the Stock Brokers Regulations and PMS Regulations have prescribed broad checks and balances so as to keep the interest of the investors protected from any kind of untoward treatment in the hands of unscrupulous stock broker. The Code of Conduct spells out the general duties of the stock broker to exercise due skill, care and diligence in the conduct of its business so as to serve the best interest of the clients in a fiduciary manner and to keep intact the integrity of securities market.
33. I note that adherence to the Code of Conduct is an ongoing requirement but the conduct displayed by the *Noticee* in performing functions of an unregistered Portfolio Manager on behalf of its client, indulging in client code modifications, transferring the profits from its various other clients' accounts to the account of Smt. Chitra and allotting multiple client codes to a single client, is certainly not in the interest of investors and the securities market and such misconduct has certainly amounted to serious violation of Section 12(1) of the SEBI Act, regulation 3 of the PMS Regulations, regulation 7 of the Stock Brokers Regulations read with Clause A (2) of the Code of Conduct for Stock Brokers as specified in Schedule II of the Stock Brokers Regulations and SEBI Circular No. SMDRP/Policy/Cir-39/2001 dated July 18, 2001. Under the circumstances, I find that the *Noticee* has not acted in a manner which is in the best interests of its clients and in the interest of integrity of the securities market as it has grossly failed to exhibit due skill, care and diligence in the conduct of its business as a stock broker. Under the circumstances, I hold the *Noticee* guilty of violating the aforesaid provisions of securities law. Therefore,

such activities of the *Noticee* as a registered stock broker cannot be condoned and deserve appropriate remedial measure to prevent for such wrong doings from recurring to the detriment of the interest of the securities market.

ORDER

34. In view of the foregoing discussions and deliberations, in exercise of powers conferred upon me under Section 12 (3) and Section 19 of the Securities and Exchange Board of India Act, 1992 read with regulation 27(5) of the SEBI (Intermediaries) Regulations, 2008, and upon considering the gravity of the violations committed by the *Noticee* viz. Transglobal Securities Ltd., as a registered stock broker of the NSE and the BSE, I hereby issue the following direction:
- (i) The *Noticee* viz. Transglobal Securities Ltd., as a stock broker of the BSE and the NSE (under certificate of registration numbers INB011149433 and INB/F231149437) is prohibited from registering fresh/new clients for a period of 3 months from the date of this order.
35. The Order shall come into force with the immediate effect.
36. A copy of this order shall be served upon the Noticee, all recognised Stock Exchanges, Registrar and Transfer Agent and Depositories for ensuring compliance with the above order.

DATE: SEPTEMBER 23, 2021
PLACE: MUMBAI

-Sd-
S. K. MOHANTY
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA