

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 Noticees	SEBI Registration No.
1.	Bakliwal Financial Services (India) Pvt. Ltd.	INB231070336 and INB011070332
2.	Bakliwal Investment	INB230922920

In the matter of Nahar Spinning Mills and Tricom India Ltd.

1. The present proceeding is originating from the Enquiry Report dated July 09, 2021, submitted by the Enquiry Officer in terms of the applicable provisions of the SEBI (Intermediaries) Regulations, 2008 (hereinafter referred as “**Intermediaries Regulations**”), in terms of the Designated Authority (hereinafter referred to as “**DA**”), based on various factual findings and observations so recorded in the said Enquiry Report, has recommended that the certificate of registration granted to Bakliwal Financial Services (India) Pvt. Ltd. (hereinafter referred to as “**BFS**”) and Bakliwal Investment (hereinafter referred to as “**BI**”, and collectively referred to as “**Noticees**”) as registered stock brokers be suspended for a period of 3 months.
2. The aforesaid Enquiry Report was submitted pursuant to an enquiry proceeding initiated based on the findings of certain facts unearthed in the course of an examination conducted by the Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) into the affairs of the *Noticees*. In this regard, a report dated September 22, 2008 was received from the

National Stock Exchange of India Limited (hereinafter referred to as “**NSE/Exchange**”) pertaining to the trading activities of the *Notices* for possible circular and synchronized trading and creation of artificial volumes in the scrip of Nahar Spinning Mills (hereinafter referred to as “**Nahar**”) during the period April 01, 2008 to July 15, 2008 and in the scrip of Tricom India Ltd. (hereinafter referred to as “**Tricom**”) during the period May 15, 2008 to July 15, 2008 (hereinafter referred to as “**Investigation Period**”). It was observed in the said report that the *Notices* had entered their alleged synchronized orders without an intention to transfer the ownership of the shares of *Nahar* and *Tricom* and the Exchange platform was also misused by the *Notices* to raise funds from bank by way of an overdraft facility against Exchange payouts (as explained at lengths in subsequent paragraphs), consequently, thereby misleading the market.

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 alleged acts of the *Notices* and into the alleged violations of regulation 4(2) (a), (g) & (n) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter referred to as “**PFUTP Regulations**”), regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as “**Stock Brokers Regulations**”) read with Clause A (1), (3), (4) and (5) of Code of Conduct for brokers specified in Schedule II of the Stock Brokers Regulations, committed by the *Notices*.
4. The DA issued a show cause notice dated August 23, 2010 to the *Notices* under regulation 25(1) of the Intermediaries Regulations [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] advising the *Notices* to submit their replies, if any, within 21 days of receipt of the notice, together with the copies of the documents, if any that they may choose to rely upon to support their contentions failing which it shall be presumed that they have

no reply to submit and the matter shall be proceeded on the basis of the material available on record. Accordingly, the *Notices* vide their separate letters dated October 27, 2010, submitted their replies. Meanwhile, BFS vide an application dated March 21, 2011 has filed for settlement of the violations alleged in the show cause notice dated August 23, 2010 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.

5. The background facts necessary for the present proceedings are narrated in brief, hereunder:
 - i. BFS and BI are stock brokers registered with SEBI where BFS is members of the Bombay Stock Exchange Limited (hereinafter referred to as “**BSE**”) and the NSE and BI is a member of the NSE.
 - ii. On receipt of intraday alerts in the scrips of *Nabar* and *Tricom*, the NSE analyzed such trades and submitted its report dated September 22, 2008 to SEBI.
 - iii. Pursuant to receipt of the said report from the NSE, SEBI conducted its examination which revealed that BFS was buying and BI was selling securities in their respective proprietary accounts on a consistent basis in a synchronized manner (i.e., buy and sell orders were placed within one minute and the limit prices were same) which resulted into generation of artificial volumes in these scrips, during the Investigation Period.
 - iv. The examination of the statements of transactions of BFS (Beneficial Owner Account and Pool Account) and BI (Pool Account) revealed as under:
 - a) On T day, BFS bought shares on the Exchange platform from BI
 - b) On T+1 day, BFS would make an off market transfer of the same quantity of shares from its BO Account to the Pool Account of BI
 - c) On T+2 day i.e. when the trade for T day settles, BFS would receive a credit in its BO Account.

6. On the basis of the aforesaid factual details, the DA, after considering the replies filed by the *Notices*, has *inter alia* observed the followings in his report:

“14. As stated above, the trading activity of the members BFS and BI, who are group concerns, has resulted into generation of artificial volumes in the scrips of Nahar and Tricom. Both BFS and BI executed transactions in a circular and synchronized manner and had entered the orders without an intention to transfer the ownership of the shares. On examination of trade & order log data of the exchange and data obtained from depositories, it was observed that on T day BFS bought shares on the Exchange platform from BI and on T+1 day BFS would make an off market transfer of the same quantity of shares from its BO account to BI pool account which were credited back in BFS BO account on T+2 day i.e. when the trade for T day settles.

15. The explanation provided by members indicates that the Exchange platform was misused to raise funds from bank by way of an overdraft facility against Exchange payout thereby misleading the market. In such a scenario, the concerned bank's risk would be covered by securing the Exchange payout as collateral. As the trades will be settled out of Settlement Guarantee Fund (SGF) even if the counter party broker fails to fulfil its pay-in obligation, the above mechanism puts the Settlement Guarantee Fund of the Exchange at risk. The Exchange would be under obligation to honour trades out of the Settlement Guarantee Fund, irrespective of whether it would be able to collect the entire amount from the defaulting broker or not.

16. The above trading pattern and mechanism used by members Bakliwal Financial Services (India) Limited and Bakliwal Investment is in violation of Regulation 4(2)(a), 4(2)(g) & 4(2)(n) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 and Clause A (1), (3), (4) and (5) of Code of Conduct for brokers specified in Schedule ii of Regulation 7 of SEBI (Stock Brokers & Sub Brokers) Regulations, 1992....”

7. After considering the Enquiry Report, a Show Cause Notice dated August 18, 2021 (hereinafter referred to as “**SCN**”) enclosing therewith the Enquiry Report of the DA, was issued to the *Notices* 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 action including passing of appropriate other directions, as deemed appropriate by the Competent

Authority, should not be taken against them. The SCN further advised the *Notices* to submit their reply, if any within 21 days of receipt of the said SCN.

8. I note that the SCN was delivered to the *Notices* and the proof of delivery is on record. However, it is noted that none of the *Notices* has filed any reply to the SCN. However, in conformity with the principles of natural justice, an opportunity of personal hearing was provided to the *Notices* on January 27, 2022, which was adjourned to February 09, 2022. The hearing was further adjourned to March 10, 2022 as per requests of the *Notices* and communicated to the *Notices* vide email dated March 07, 2022. On the scheduled day, the hearing was held through video conferencing wherein the *Notices* appeared through their Authorised Representative and made oral submissions on the lines of their earlier replies dated October 27, 2010 filed before the DA. The *Notices* were given two weeks' time to file further written submissions, if any on the lines of oral submissions made during the course of the hearing held on March 10, 2022. Further, the *Notices* vide email dated May 06, 2022 requested time till May 28, 2022 to file their written submissions in this regard. However, it is noted that none of the *Notices* till date has filed any post hearing written submissions despite seeking further time in this regard.
9. The oral submissions made by the *Notices* during the course of the hearing, are summarized as under:
 - i. The *Notices* are not operating for last 10 years and their broker trading cards are inactive though the same have not been surrendered.
 - ii. Their main business was arbitrage where the *Notices* used to buy on one exchange and sell on another exchange.
 - iii. The *Notices* had 28,000 clients but not a single complaint has been filed by any of the clients against them which shows that they have impeccable track record as far as trading is concerned.
 - iv. The Investigation Period was a period of extreme volatility and the requirements of margin were at the highest level. Also, many of their

clients had suffered heavy losses due to which there was an extreme cash crunch faced by them.

- v. Normally, after analysis of the funds requirement for next day's trades based on the today's exposure limits and margin obligations and based on any immediate requirement of funds, BFS used to sell securities to BI who then have to avail temporary overdraft against the Exchange payout on those shares.
- vi. Since BI has settlement account in Bank of India which used to give temporary overdraft facility against the Exchange payout for the next day, BFS used to execute sell transactions with BI for immediate requirement of funds.
- vii. The said transactions were carried out at the fag end of the trading session based upon the funds requirement of BFS and were, without any intention of creating false volumes In any case the said transactions were miniscule compared to the total volume traded during the Investigation Period. Had it been the case of generating false volume, BFS would have carried out such trades on a daily basis and that too throughout the day, which is not observed in the current case.
- viii. The *Notices* do not have any direct or indirect relationship with the directors, promoters etc. of *Nahar* and *Tricom*.

CONSIDERATION OF ISSUES

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

- I. Whether the *Notices* have executed circular and synchronized trades, created artificial volumes and thereby had entered the orders without an intention to transfer the ownership of the shares of *Nahar* and *Tricom* and whether the *Notices* have misused the Exchange platform to raise

funds from bank by way of an overdraft facility against Exchange payouts, thereby misleading the market.

II. Whether the above trading pattern and mechanism used by the *Notices* are in violation of regulation 4(2)(a), 4(2)(g) & 4(2)(n) of the PFUTP Regulations, 2003 and Clause A (1), (3), (4) and (5) of Code of Conduct for brokers specified in Schedule II of regulation 7 of the Stock Brokers Regulations, 1992.

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 PFUTP Regulations, 2003

4. Prohibition of manipulative, fraudulent and unfair trade practices

(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;

(g) entering into a transaction in securities without intention of performing it or without intention of change of ownership of such security;

(n) circular transactions in respect of a security entered into between intermediaries in order to increase commission to provide a false appearance of trading in such security or to inflate, depress or cause fluctuations in the price of such security

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 Brokers

A. General.

- (1) Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness 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.*

I. Whether the Noticees have executed circular and synchronized trades, created artificial volumes and thereby had entered the orders without an intention to transfer the ownership of the shares of Nahar and Tricom and whether the Noticees have misused the Exchange platform to raise funds from bank by way of an overdraft facility against Exchange payouts, thereby misleading the market.

12. It is noted that examination was carried out into the trading activities of the Noticees after receiving a report dated September 22, 2008 from the NSE pursuant to intraday alerts generated in the scrips of Nahar and Tricom. During the relevant period, it was noticed that BFS, a member NSE, trading on its own account was buying and BI, member NSE, on its own account was selling securities on a consistent basis in a synchronized manner i.e. buy and sell orders were being placed by them within one minute. As the limit

prices were same, the said trading activities of the *Notices* have resulted into generation of artificial volumes in the aforesaid scrips.

13. Based on the analysis of trading activities and the demat account data obtained from NSDL and CDSL in the scrips of *Nabar & Tricom*, it is noted that the Price-Volume details in the scrips of *Nabar* and *Tricom* during the Investigation Period are as under:

Nabar

Analysis Period		Price Fluctuation (INR)					Volume Day Wise		
From	To	Open	High	Low	Avg.	Close	High	Low	Avg.
April 01, 2008	July 15, 2008	57.9	70	35	54.26	39.7	79608	386	20127

Tricom

Analysis Period		Price Fluctuation (INR)					Volume Day Wise		
From	To	Open	High	Low	Avg.	Close	High	Low	Avg.
May 15, 2008	July 15, 2008	149.85	154	25	129.16	27.35	1012274	852	54857

14. It is noted from the tables above that the price of the scrip of *Nabar* was observed to have moved from an open price of INR 57.9 on April 01, 2008 to a close price of INR 39.7 on July 15, 2008 after touching an intra-period high price and low price of INR 70 and INR 35, respectively. Similarly, the price of the scrip of *Tricom* was observed to have moved from an open price of INR 149.85 on May 15, 2008 to a close price of INR 27.35 on July 15, 2008 after touching an intra-period high and low price of INR 154 and INR 25, respectively.

15. Further, the details of total number of trades carried out by the *Notices* in the scrip of *Nabar* and *Tricom*, as recorded in the SCN, are as under:

Nabar

Sr. No	Date	Buy by BFS on own account	Sell by BI on own account	Synchrized Traders	Market Buy/Sell	BFS's buy % to Market Vol (Calculated	BI's Sell % to Market Vol (calculated	Off market transfer from	Off market interdepository transfer from
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						on Syn trades)	on Syn traders)	BFS to BI	Prakash Bakliwal to BI
1	2-Apr-08	30000	30000	30000	35690	84.05	84.05		
	3-Apr-08	30000	30000	29900	35720	83.71	83.71	30000	
	4-Apr-08	35000	35000	35000	41781	83.77	83.77	30000	
	7-Apr-08							35000	
2	8-Apr-08	38000	38000	38000	42222	90.00	90.00		
	9-Apr-08	36000	36000	36000	42575	84.56	84.56	38000	
	10-Apr-08	18000	18000	18000	23576	76.35	76.35	36000	
	11-Apr-08							18000	
3	23-Apr-08	30000	30000	30000	79608	37.68	37.68		
	24-Apr-08	30000	30000	30000	55543	54.01	54.01	30000	
	25-Apr-08	30000	30000	29474	40869	72.12	72.12	30000	
	28-Apr-08							30000	
4	30-Apr-08	30000	30000	30000	35043	85.61	85.61		
	2-May-08	30000	30000	29895	35697	83.75	83.75	15000	
	3-May-08							15000	
	5-May-08							30000	
5	15-May-08	30000	30000	30000	34727	86.39	86.39		
	16-May-08							30000	
6	26-May-08	30000	30000	30000	33813	88.72	88.72		
	27-May-08								30000
	30-May-08	30000	30000	29850	34217	87.24	87.24		
	02-Jun-08								30000
	03-Jun-08	30000	30000	30000	33506	89.54	89.54		
	04-Jun-08								30000
7	4-Jun-08	30000	30000	30000	41097	72.99	72.99		
	5-Jun-08	30000	30000	29977	35660	84.06	84.06	30000	
	6-Jun-08	30000	30000	30000	40034	74.94	74.94	30000	
	9-Jun-08	30000	30000	30000	35465	84.59	84.59	30000	
	10-Jun-08	30000	30000	29997	34012	88.19	88.19	30000	
	11-Jun-08	30000	30000	30000	34391	87.23	87.23	30000	
	12-Jun-08							30000	
8	17-Jun-08	30000	30000	30000	32654	91.87	91.87		
	18-Jun-08								30000
	19-Jun-08	30000	30000	29961	33149	90.38	90.38		
	20-Jun-08								30000
9	20-Jun-08	30000	30000	29913	37315	80.16	80.16		
	23-Jun-08	30000	30000	30000	36928	81.24	81.24	30000	
	24-Jun-08							30000	
10	7-Jul-08	30000	29957	29957	43874	68.28	68.28		
	8-Jul-08								
	9-Jul-08	30000	30000	30000	40794	73.54	73.54		
	10-Jul-08								30000
11	10-Jul-08	30000	30000	30000	34561	86.80	86.80		
	11-Jul-08	5000	5000	5000	6843	73.07	73.07	30000	
	14-Jul-08	30000	30000	30000	33643	89.17	89.17	5000	

	15-Jul-08	15000	15000	15000	20332	73.77	73.77	5000	25000
	Total	897000	896957	895924				647000	234957

Tricom

Sr. No	Date	Buy by BFS on own account	Sell by BI on own account	Synchr onized Traders	Market Buy/Sell	BFS's buy % to Market buy. (Calculate d on Syn Trades)	BI's Sell % to Market Vol (calculated on Syn traders)	Off market transfer from BFS to BI	Off market interdeposi tory transfer from Prakash Bakliwal to BI
1	15-May-08	10000	10000	9934	26512	37.46	37.46		
	16-May-08							10000	
2	26-May-08	14000	14000	13905	15600	89.13	89.13		
	27-May-08							3725	10000
3	30-May-08	14000	14000	14000	145593	9.61	9.61		
	2-Jun-08								13725
4	3-Jun-08	14000	14000	14000	68124	20.55	20.55		14000
	4-Jun-08	14000	14000	14000	43864	31.92	31.92		
	5-Jun-08	14000	14000	14000	28461	49.19	49.19	14000	
	6-Jun-08	14000	14000	14000	44107	31.74	31.74	14000	
	9-Jun-08	14000	14000	14000	17230	81.25	81.25	14000	
	10-Jun-08	14000	14000	14000	37434	37.40	37.40	14000	
	11-Jun-08	14000	14000	14000	59611	23.48	23.48	14000	
	12-Jun-08	14000	14000	14000				14000	
5	16-Jun-08	14000	14000	14000	18225	76.81	76.81		
	17-Jun-08	14000	14000	14000	30675	45.64	45.64		7500
	18-Jun-08							20500	
6	19-Jun-08	14000	14000	14000	17175	81.51	81.51		
	20-Jun-08	14000	14000	13800	19934	69.23	69.23		14000
	23-Jun-08	14000	14000	14000	14918	93.85	93.85	14000	
	24-Jun-08							14000	
7	4-Jul-08	14000	14000	14000	17157	81.60	81.60		
	7-Jul-08	14000	14000	13991	39593	35.34	35.34	14000	
	8-Jul-08							14000	
	Total	234000	234000	233630				174225	59225

16. From the tables above, it is noted that BFS had bought 8,97,000 shares and BI had sold 8,96,957 shares of *Nabar* in their proprietary accounts on NSE, accounting for 30.95% gross market volume and 80.08% of net market volume in the said scrip where, the total traded volume was 14,49,164 shares during the Investigation Period. Further, BFS had bought and BI had sold

2,34,000 shares of *Tricom* in their proprietary accounts on NSE which accounted for 8.69% gross market volume and 30.8% of net market volume in the said scrip out of total traded volume of 23,58,864 shares of *Tricom* traded during the Investigation Period.

17. Out of the 8,97,000 shares of *Nahar* bought by BFS, for a total of 8,95,924 shares (i.e. 99.88%) BI was the selling counterparty which indicates that trades for the said 8,95,924 shares of *Nahar* were executed in a synchronized manner with respect to time i.e., buy and sell orders were placed within a time difference of less than 1 minute. Further, out of the above 8,95,924 shares, trades for 5,40,824 (i.e., 60.36% of 8,95,924) shares were synchronized both in terms of price as well as quantity where by the buy order and sell order prices as well as the corresponding quantities were also matching. Further, from the data obtained from the depositories (NSDL and CDSL), it is noted that out of the total number of 8,81,957 shares of *Nahar* delivered by BI (to BFS) during the Investigation Period, 6,47,000 shares were obtained by it through off market transactions from BFS Beneficiary Owner Account to BI Pool Account and the remaining 2,34,957 shares were transferred to BI by Mr. Prakash Bakliwal.
18. Similarly, BI was the selling counterparty for a total number of 2,33,630 shares (i.e. 99.84%) out of 2,34,000 shares of *Tricom* bought by BFS. The trades for 2,33,630 shares were executed in a synchronized manner with respect to time i.e., buy and sell orders were placed within a time difference of less than 1 minute. Out of this, trades for 1,70,991 (i.e., 73.19% of 2,33,630) shares were also synchronized with respect to buy order and sell order prices which matched with the corresponding quantities. From the data obtained from the depositories (NSDL and CDSL), it is observed that out of the total of 2,34,000 shares delivered by BI during the Investigation Period, 1,74,225 shares were obtained through off market transactions from BFS Beneficiary Owner Account to BI Pool Account and the remaining 59,225 shares were transferred to it by Mr. Prakash Bakliwal.

19. In this context, I note that that the *Notices* have neither denied having entered into the aforesaid trades nor have disputed the aforesaid facts pertaining to total traded volume, gross & net market volumes, synchronized trades, off market transfer etc., as recorded in the SCN at any stage of the extant proceedings before me. I note that the *Notices* have orally contended before me during the personal hearing that the said transactions were miniscule compared to the total volume traded in the scrip of *Nabar* and *Tricom* during the Investigation Period. However, in the light of the aforesaid undisputed facts and considering the fact that the *Notices* have failed to place any documentary evidence in support to refute the above admitted facts, I am of the considered view that the aforesaid contention of the *Notices* that their trading volumes were miniscule compared to the total volume traded in the scrip of *Nabar* and *Tricom* during the Investigation Period, appears to be an afterthought exercise more so when the *Notices* have not adduced any evidence even after availing sufficient time to do so to defend themselves, hence the said contention is rejected being devoid of any merit. Based on the examination of Trade and Order logs data of the NSE and statements of transactions of BFS (Beneficiary Owner Account and Pool Account) and BI (Pool Account) in the scrips of *Nabar* and *Tricom* as recorded in the SCN, it is further noted that on T day, BFS would buy shares on the NSE from BI and on T+1 day, BFS used to make an off market transfer of the same quantity of shares from its BO Account Number IN30047640230839 to BI Pool Account Number IN30012611181890 which were credited back in BFS BO Account on T+2 day by way of pay-in of shares to settle the trades executed by BI with BFS.
20. In this context, the *Notices* have submitted that when there was an immediate requirement of funds or was a need for BFS to borrow funds from BI (its group concern), BFS used to sell securities to BI who would then avail temporary overdraft against the Exchange payout as BI has a settlement account with Bank of India which used to give temporary overdraft facility

against Exchange payout for the next day. I note that the aforesaid explanation provided by the *Notices* amounts to a candid admission that the Exchange platform was misused to raise funds from bank by way of an overdraft facility against Exchange payout, thereby misleading the market. In such a scenario, the concerned bank's risk would be covered by securing the Exchange payout as collateral. As the trades will be settled out of Settlement Guarantee Fund (SGF) of an Exchange even if the counter party broker fails to fulfil its pay-in obligation, the above modus operandi adopted by the *Notices* could also put the Settlement Guarantee Fund of the Exchange at risk. The Exchange would be under obligation to honour such mutually arranged trades out of the Settlement Guarantee Fund, irrespective of whether it would be able to collect the entire amount from the defaulting broker or not.

21. To put the aforesaid deliberation in a perspective, I find it appropriate to capture the legislative and regulatory scheme and mandate of the PFUTP Regulations, 2003 and the Stock Brokers Regulations, 1992. Regulation 4 of the PFUTP Regulations, 2003 clearly mandates that no person shall indulge in a fraudulent or unfair trade practice in securities and dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and includes all or any of the prohibited trading activities such as creating false and misleading appearance of trades, entering into transactions in securities without intention of change in ownership and executing circular and synchronized trades etc. 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 (1) of the said Code of Conduct mandates that a stock broker shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business and Clause A (3) casts an obligation on a broker that he shall not indulge in manipulative, fraudulent or deceptive transactions in securities. Additionally, Clause A (5) puts accountability on a broker that he

shall abide by all the provisions of the SEBI 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.

22. Considering the above, I find no merit in the submission of the *Notices* that the trades were miniscule in nature and executed only at the fag end of the market hour, after realizing that it was falling short of funds required to meet the margin and other trading obligation. Indeed, the records show that majority of such trades were executed around the end of the market hour, but I cannot close my eyes to the fact that such acts of dealing in securities under a pre-conceived scheme to avoid margin obligations and also to meet short term funds requirement from Bank overdraft facilities cannot be held to be bonafide dealings in securities that can be called desirable and permissible under the extant norms governing the dealing in securities under the securities laws. The submission of the *Notices* that the trades had no impact on the volume of the two scrips are also not having merit enough to deserve consideration. In this respect, it is not important as to whether the alleged acts of the *Notices* had actually impacted the market adversely or not, but the test is whether the acts as such were permissible at all, and whether these acts which if not nipped in the bud, would be detrimental to the interest and integrity of the securities market. The attempt being made by the *Notices* to legitimize the acts only for the reason that these trades were not substantial in volume and had not adversely impacted the market, would amount to encouraging people to resort to such acts in small volumes, to game the exchange platform for making financial arrangements under the garb of share trading which would not only lead to adverse cascading effect on the artificial volumes of the scrips but also will severely compromise the integrity of the securities market. I cannot ignore that the *Notices* have engaged in such acts on numerous occasions knowing fully well that such acts were not appropriate for the development of a fair and transparent securities market. Placing of trades around the end of the trading hour on a day may not have

impact on the day, but its unexpected consequences on coming days cannot be ruled out as the market is not aware of the reason and intent behind the placing of such orders.

23. The *Notices* have further claimed that they have 28,000 clients but not a single complaint has been filed by any of the clients against them which shows that they have an impeccable track record as far as trading is concerned. However, to substantiate a charge pertaining to fraudulent and unfair trade practice and violations of Code of Conduct under the Stock Brokers Regulations, it is not necessary that the regulator has to mandatorily receive complaints against the *Notices* from any of their clients, as the same is not a pre-requisite /ingredient under the relevant provisions of the PFUTP and the Stock Brokers Regulations. To put it differently, it is not a pre-condition/requirement under the PFUTP Regulations, 2003 to bring any evidence of filing of complaint, so as to prove charges of unfair trade practices under the PFUTP Regulations, 2003. The execution of circular and synchronized trades would stand substantiated on the basis of its own supporting tangible evidence such as Trade and Order logs etc. and need not be further corroborated by filing of any complaints from anyone in this regard.
24. In view of the aforesaid deliberations and in the absence of any material to suggest anything contrary to the allegations, I am constrained to conclude that the *Notices* have failed to rebut the allegations/charges made in the SCN against them that the trading activities of the *Notices*, who are group concerns, have resulted into generation of artificial volumes in the scrips of *Nabar* and *Tricom*. It is also clear from the aforesaid facts that the *Notices* have executed transactions in a circular and synchronized manner and have also entered the orders without an intention to transfer the ownership of the shares. Under the circumstances, the acts of generation of artificial volumes as established above and further indulging in executing transactions in a circular and synchronized manner and entering the orders without an intention to transfer the ownership of the shares in the scrips of *Nabar* and

Tricom are sufficient in themselves to be held as fraudulent and unfair trade practice well within the ambit of the PFUTP Regulations, 2003.

25. In view of the above deliberations and observations, I have no hesitation in holding that the *Notices* have executed circular and synchronized trades, created artificial volumes and had entered the orders without an intention to transfer the ownership of the shares of *Nabar* and *Tricom*. They have also misused the Exchange platform to raise funds from bank by way of an overdraft facility against Exchange payouts thereby misleading the market. Therefore, I note that the Issue No. 1 i.e., whether the *Notices* have executed circular and synchronized trades, created artificial volumes and had entered the orders without an intention to transfer the ownership of the shares of *Nabar* and *Tricom* and whether the *Notices* have misused the Exchange platform to raise funds from bank by way of an overdraft facility against Exchange payouts thereby misleading the market, has to be answered in affirmative.

II. Whether the above trading pattern and mechanism used by the Notices are in violation of regulation 4(2)(a), 4(2)(g) & 4(2)(n) of the PFUTP Regulations, 2003 and Clause A (1), (3), (4) and (5) of Code of Conduct for brokers specified in Schedule II of regulation 7 of the Stock Brokers Regulations, 1992.

26. Having conclusively established above that the trading activities of the *Notices*, who are group/sister concerns, have resulted into generation of artificial volumes in the scrips of *Nabar* and *Tricom*, that the *Notices* have executed transactions in a circular and synchronized manner and had entered the orders without an intention to transfer the ownership of the shares, and having also held above that the acts of the *Notices* to raise funds from bank by way of an overdraft facility against Exchange payout tantamount to misusing the Exchange platform and misleading the securities market, I have no iota of doubt in holding that the aforesaid conduct of the *Notices* has

clearly resulted in the contravention of the provisions of regulation 4(2)(a), 4(2)(g) & 4(2)(n) of the PFUTP Regulations, 2003 by the *Notices*.

27. Looking holistically at the alleged conduct of the *Notices* who are registered market intermediaries, 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 *Notices* have not maintained high standards of integrity, promptitude and fairness in their conduct. Also, by violating the aforesaid provisions of the PFUTP Regulations, 2003, the *Notices* have clearly indulged in manipulative, fraudulent or deceptive transactions which has led to interference with the fair and smooth functioning of the securities market. Further, the endeavor on the part of the *Notices* to justify their conduct by submitting that they were doing arbitrage business, 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 *Notices* (like non-existence of any complaints etc.) but to examine as to whether or not, the *Notices* have acted in a manner expected of a market intermediary and the answer to the same manifestly goes against the *Notices*. In view of the aforesaid discussion, I have no hesitation but to hold that the *Notices* have miserably failed to adhere to the Code of Conduct as mandated under Clause A (1), (3), (4) and (5) of Code of Conduct for brokers specified in Schedule II of regulation 7 of the Stock Brokers Regulations, 1992.
28. 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 which conforms and complies with all applicable regulatory requirements so as to uphold the integrity of the securities market. As the arena of securities market is fundamentally vast and complex, the Stock Brokers Regulations have

prescribed broad checks & balances and norms of accepted behavior so as to maintain the integrity of the securities market. The Code of Conduct spells out the general duties of the stock broker to maintain high standards of integrity, promptitude and fairness in the conduct of all his business so as to act in a fair and transparent manner to keep intact the integrity of securities market.

29. I note that adherence to the Code of Conduct is an ongoing requirement but the conduct displayed by the *Notices* in executing these circular and synchronized trades as discussed above, creating artificial volumes and entering the orders without an intention to transfer the ownership of the shares of *Nabar* and *Tricom*, as well as in misusing the Exchange platform to raise funds from bank by way of an overdraft facility against Exchange payout and thereby misleading the market, certainly cannot be said to be in the best interest of the securities market and such misconduct has certainly amounted to serious violation of regulation 4(2)(a), 4(2)(g) & 4(2)(n) of the PFUTP Regulations, 2003 and Clause A (1), (3), (4) and (5) of Code of Conduct for brokers specified in Schedule II of regulation 7 of the Stock Brokers Regulations, 1992. Under the circumstances, I hold the *Notices* guilty of violating the aforesaid provisions of securities law. Therefore, such activities of the *Notices* as registered stock brokers cannot be condoned and deserve appropriate remedial measure to prevent such wrong doings from recurring to the detriment of the interest of the securities market.
30. Having observed as above, I also cannot lose sight of the fact that the matter is now almost 14 years old and the alleged transactions date back to Year 2008. The *Notices* have emphasized before me the facts that the SCN does not allege that *Notices* or its promoters, directors have any connections, whatsoever, with *Nabar* and *Tricom* or their promoters/directors. The SCN has also not made any case against the *Notices* having made any undue benefit at the cost of investors of the securities market. Moreover, at present, both BFS and BI are not operating as active stock brokers in the securities market,

hence no meaningful purpose will be served by taking any punitive actions against them after 14 years.

ORDER

31. 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 *Noticees* viz. Bakliwal Financial Services (India) Pvt. Ltd., as a registered stock broker of the NSE and the BSE and Bakliwal Investment, as a registered stock broker of the NSE, I hereby issue the following direction:
- i. The Noticees i.e., Bakliwal Financial Services (India) Pvt. Ltd., as a stock broker of the BSE and the NSE (under certificate of registration numbers INB231070336 and INB011070332) and Bakliwal Investment, as a stock broker of the NSE (under certificate of registration number INB230922920) are hereby prohibited from registering fresh/new clients for a period of 03 months from the date of this order.
32. The Order shall come into force with the immediate effect.
33. 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: JULY 29, 2022

PLACE: MUMBAI

-Sd/-

S. K. MOHANTY

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA