BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/PM/AB/2020-21/7827]

UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995

In respect of:

Arihant Capital Markets Ltd

PAN: AABCA6832G

FACTS OF THE CASE:

1. Securities and Exchange Board of India (hereinafter be referred to as, the "***SEBI***") conducted investigation into trading activities of certain entities in the scrip of Moryo Industries Ltd. (hereinafter be referred to as, the "***Moryo***") for the period of January 15, 2013 to August 31, 2014(hereinafter be referred to as, the "***Investigation Period***").
2. Based on the findings of the investigation, SEBI initiated adjudication proceedings against Arihant Capital Markets Ltd. (hereinafter be referred to as, the "***Noticee***") under Section 15HB of the Securities and Exchange Board of India Act, 1992 (hereinafter be referred to as, the "***SEBI Act***"), for the alleged violation of Clause A(2) of the Code of Conduct for Stock Brokers as specified under Schedule II read with Regulation 7 (as existed at the relevant time) of the Securities and Exchange Board of India (Stock Broker and Sub Brokers) Regulations, 1992 (hereinafter referred to as "***Broker Regulations***").

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI vide order dated September 7, 2017 appointed the undersigned as the Adjudicating Officer under section 15 I of SEBI Act, 1992 read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 ("AO Rules") to inquire into and adjudge the aforesaid allegations under Section 15HB of the SEBI Act.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

4. A Show Cause Notice dated April 27, 2018 (hereinafter be referred to as the "***SCN***") was issued to the Noticee under Rule 4 of the AO Rules to show cause as to why an inquiry should not be initiated and penalty be not imposed under Section 15HB of the SEBI Act for the allegations as detailed in the said SCN. The price movement during the investigation period was examined in various patches. The SCN alleged that during the period January 15, 2013 to November 8, 2013 ("***Patch 1***"), the price of the scrip of Moryo opened at Rs. 93.40 and closed at Rs. 101 with a high of Rs. 138.6 and a low of Rs. 60.30. A total of 1,45,926 shares were traded during Patch 1 with the average daily traded volume of 1,363 shares. The role of entities who had contributed to the increase in Last Trade Price (hereinafter referred to as "LTP") was examined by SEBI. One of the clients of the Noticee, Shri Badrilal Birla (hereinafter referred to as "BB") had traded in the scrip of Moryo which was allegedly fraudulent in nature.

BB's role as Buyer

5. The summary of trading of the BB during Patch 1 was as follows:

Table 1: Summary of trading done by BB

Total Trades			LTP Diff. >0			LTP Diff. < 0			LTP Diff. =0		% of Positive LTP to Total Market Positive LTP
Sum of LTP diff	Sum of Quantity	No of trades	LTP impact	QTY traded	No of trades	LTP impact	QTY traded	No of trades	QTY traded	No of trades	
65.25	32	22	86.40	23	18	-21.15	8	3	1	1	**30.46**

6. It was observed that BB had contributed to more than 5% to total market positive LTP through 22 trades for a total quantity of 32 shares during this patch. Out of these 22 trades, BB contributed Rs. 86.40 of positive LTP (30.46% of market positive LTP) in 18 trades for 23 shares. It was observed that in all the said 18 positive LTP contributing trades, BB had placed buy orders in small quantity. Details of these 18 trades along with their LTP contribution is given below:

Table 2: Details of trades of BB

Sl. No.	Description	No. of trades	LTP Contribution (Rs)	% of total market positive LTP

1	Trades where buy order qty is 1 share	15	77.05	27.16%
2	Trades where buy order qty is 2 shares	2	7.15	2.52%
3	Trades where buy order qty is 6 shares	1	2.2	0.78%
4	All buy trades which contributed to positive LTP	**18**	**86.40**	**30.46%**

7. It was observed that out of above 18 positive LTP contributing trades, there were 12 trades wherein the buy order was placed for less than or equal to 6 shares while the disclosed quantity of sell order was more than or equal to 100 shares. These 12 trades were executed on 12 different days and resulted in positive LTP contribution of Rs 56.65 (19.97% of total market positive LTP) during Patch 1. Details of these 12 positive LTP contributing trades is given below:

Table 3: Details of trades of BB

Sl. No.	Trade Date	Buyer Name	Seller Name	Trade Time	Buy Order Time	Sell Order Time	Trade Price	LTP Diff	Buy Order Price	Sell Order Price	Trade Quantity	Sell Order Disclose Volume	Buy Order Original Quantity
1	31.01.2013	Badri Lal Birla	Rakesh Kumar Modi	09:54:43.5050340	09:54:43.4767400	09:44:49.7451510	113.60	2.20	113.60	113.60	6	100	6
2	16.04.2013	Badri Lal Birla	Vinod Banwarilal Sharma	14:15:33.5017690	13:58:34.4683990	13:57:34.4912230	76.00	3.60	76.00	76.00	1	300	1
3	06.05.2013	Badri Lal Birla	Rakesh Kumar Modi	15:15:26.3704090	15:09:40.7919310	15:03:58.9738280	104.00	4.40	104.00	104.00	1	500	1
4	07.05.2013	Badri Lal Birla	Sunil Kr Bagaria Huf	15:15:21.8107230	15:01:15.8389440	15:01:52.1442820	109.20	5.20	109.20	109.20	1	1000	1
5	15.05.2013	Badri Lal Birla	Insight Multitrading Private	14:15:23.8931650	14:02:44.4628580	13:43:02.6466090	132.00	5.00	132.00	132.00	1	500	1
6	20.05.2013	Badri Lal Birla	Prem Ratan Bhaiya	11:15:29.3936290	10:35:23.4013120	11:09:29.4392630	138.50	6.50	138.60	138.50	1	100	1
7	22.05.2013	Badri Lal Birla	Sunil Kr Bagaria Huf	15:15:24.6336290	14:49:44.4699300	14:50:46.2692270	137.00	5.00	138.00	137.00	1	400	1
8	06.06.2013	Badri Lal Birla	Vivekanand Bagadia Huf	15:15:21.6561930	15:13:43.8089390	15:06:28.3626280	108.00	7.45	111.05	108.00	1	170	1
9	11.06.2013	Badri Lal Birla	Narendra G Navalakha	15:15:23.5523810	15:09:11.9484130	14:55:04.5389920	107.25	4.60	107.25	107.25	1	250	1
10	12.06.2013	Badri Lal Birla	Narendra G Navalakha	15:15:29.9985050	15:08:25.7440170	14:30:04.8607650	111.40	4.15	111.40	111.40	1	250	1
11	15.07.2013	Badri Lal Birla	Coline Computer Private	15:15:30.3478120	15:00:19.3921620	14:37:34.3355630	112.00	4.80	112.00	112.00	1	100	1
12	18.07.2013	Badri Lal Birla	Vinubhai Khushalbhai Patel	15:15:29.1054690	14:56:55.3713750	14:32:21.4881380	100.00	3.75	106.00	100.00	1	122	1

8. In respect of trades at sl. no. 4, 6 and 7 (i.e., where buy order was placed before the sell order), the buy order was placed for 1 share at prices

significantly above LTP, which were subsequently matched by sell orders. In the remaining trades (i.e., where buy order was placed after the sell order), while the disclosed volume of the sell orders were large, buy orders were placed for small quantities, for which quantity the above trades were executed. These trades for small quantity were executed on 12 days and contributed to significant positive LTP. Further, out of these 12 days, on 7 days the trade of BB was the only trade of the day.

9. Thus, it was alleged that BB was not acting as genuine buyer and had no bona fide intention to buy but to mark the price higher because despite availability of large disclosed quantity of sell orders, he was placing small quantity buy orders by either matching or placing orders at prices higher than sell order price which were already above LTP or by placing buy orders at prices above LTP which were subsequently matched by sell orders thereby contributing to significant positive LTP.

BB's role as Seller

10. It was also observed that BB was one of the entities who contributed more than 5% to market positive LTP during patch 1 as seller. Upon analysis of his LTP contribution, it was observed that BB contributed Rs. 68.65 of positive LTP (24.20% of market positive LTP) through 14 trades for 23 shares. The details of the trades of BB as seller is as follows:

Table 4: Details of trades of BB

Sl. No.	Batch Date	Buyer Name	Seller Name	Trade Time	Buy Order Time	Sell Order Time	Trade Price	LTP Diff	Buy Order Price	Sell Order Price	Trade Quantity	Sell Order Volume	Buy Order Volume	No. of shares held before these trades
1	10.04.2013	Chandrakanta Laddha	Badri Lal Birla	15:15:28.0197830	15:09:25.3511850	15:11:51.8788370	66.00	5.00	66.00	66.00	1	1	5	700
2	11.04.2013	Chandrakanta Laddha	Badri Lal Birla	15:15:20.9609680	14:30:39.5564540	14:32:19.9057080	69.00	3.00	69.00	69.00	1	1	10	699
3	17.04.2013	Shyam Kanheyalal Vyas	Badri Lal Birla	11:15:36.5707650	10:30:05.0960430	10:32:27.2075950	79.80	3.80	79.80	79.80	1	1	500	700

4	17.04.2013	Badri Lal Birla	Badri Lal Birla	15:15:32.7875170	14:51:16.1298750	14:34:09.0199340	79.80	7.30	79.80	79.80	1	1	1	699
5	18.04.2013	Badri Lal Birla	Badri Lal Birla	15:15:21.5569810	14:35:52.0683860	15:04:14.6230220	83.75	3.95	83.75	83.75	1	1	1	699
6	13.05.2013	Chandrakanta Laddha	Badri Lal Birla	15:15:29.0931230	14:31:43.9379730	14:32:47.9692090	121.20	5.20	121.20	121.20	3	3	5	703
7	17.05.2013	Chandrakanta Laddha	Badri Lal Birla	15:15:31.5513270	14:30:34.6734180	14:31:15.3454240	132.00	5.50	132.00	132.00	2	2	10	702
8	21.05.2013	Chandrakanta Laddha	Badri Lal Birla	15:15:30.7855600	15:06:01.1523290	15:04:14.3967600	132.00	6.00	132.00	132.00	1	1	2	701
9	24.06.2013	Amritlal Kanji Haria	Badri Lal Birla	10:15:27.0151350	09:59:55.6360840	10:04:28.8100230	100.35	4.75	100.35	100.35	1	1	1	704
10	27.06.2013	Chandrakanta Laddha	Badri Lal Birla	15:15:26.5524120	14:33:10.3273100	15:13:35.9956750	108.00	2.65	109.35	107.95	1	1	2	703
11	01.07.2013	Chandrakanta Laddha	Badri Lal Birla	15:15:30.3549310	14:53:06.6327380	14:59:55.9148270	106.80	4.15	106.80	106.75	2	2	5	704
12	02.07.2013	Chandrakanta Laddha	Badri Lal Birla	15:15:35.1818470	14:39:36.1466430	14:48:16.2415370	109.90	3.10	109.90	109.85	1	1	3	702
13	04.07.2013	Chandrakanta Laddha	Badri Lal Birla	10:15:46.2864050	10:03:36.6494630	10:04:35.0806030	114.80	4.90	114.85	114.80	5	5	5	701
14	19.07.2013	Chandrakanta Laddha	Badri Lal Birla	15:15:36.1418160	14:48:21.9549690	15:04:47.1531770	104.45	9.35	105.00	104.45	2	2	2	705

11. The following is observed from the above 14 trades:

   a. Despite having sufficient quantity of shares with him, BB was placing small quantity sell orders (1 to 5 shares) at prices higher than LTP. Such trades were executed on 13 days and contributed to significant positive LTP.

   b. In 6 days from April 10, 2013 to April 18, 2013, the BB indulged into such positive LTP contributing trades on 4 days.

   c. Also, in 7 days from June 24, 2013 to July 04, 2013, BB indulged into such positive LTP contributing trades on 5 days.

d. From the aforesaid trading pattern, it was alleged that BB was not acting as a genuine seller and had no bona fide intention to sell but to mark the price higher because in-spite of having sufficient quantity of shares available with him, he was placing small quantity sell orders at prices above LTP, thereby contributing to significant positive LTP.

12. All the aforesaid trades of BB were placed through the Noticee. It was alleged that these 14 sell trades and 12 buy trades over a period of 25 days should have alerted the Noticee. It was also revealed from the demat transaction statement of BB, that his depository participant was the Noticee itself, and hence the Noticee ought to be aware that BB was having sufficient quantity of shares available with him, still he was repeatedly placing small quantity sell orders at prices above LTP.

13. It was thus alleged that the Noticee, by allowing such manipulative trades to go through, failed to exercise due skill, care and diligence and thereby violated Clause A(2) of the Code of Conduct for Stock Brokers as specified under Schedule II read with Regulation 7 (as existed at the relevant time) of the Broker Regulations.

14. The SCN was duly delivered and the Noticee vide letter dated May 16, 2018 sought 6 weeks time to reply to the SCN. The Noticee submitted its reply to the SCN vide letter dated June 4, 2018.

15. An opportunity of personal hearing was granted to the Noticee on October 29, 2018 vide Notice of hearing dated October 12, 2018 in accordance with Rule 4(3) of the AO Rules. Vide letter dated October 23, 2018 the Noticee sought an adjournment. Considering the request of the Noticee, the hearing was rescheduled to November 4, 2018. The authorized representative appeared on the said date and reiterated the submissions made earlier. The representative further sought a time of one week to submit written submissions. The Noticee submitted additional submissions vide letter dated November 20, 2018. It was seen from the submissions made by the Noticee that it had included some communication with BB. As the notice of BB was undelivered, enquiry was made with the Noticee about BB and a copy of SCN of BB was handed over to the Noticee. Subsequently, the order against BB could be passed only in August, 2019. In the interest of justice, another opportunity was given to the Noticee to file any further submissions before passing of the order. The Noticee submitted it submissions vide letter dated February 18, 2020.

16. A summary of the submissions made by the Noticee in response to the SCN is as follows:

    a. There is an inordinate delay in initiation of proceedings as the transactions happened in 2013 and 2014.

b. There is nothing unusual in price movement of Moryo as there was an increase in profits because of which the price increased.

c. The Noticee has merely executed that trades on instructions of the clients and it had not advised or had any control on the instructions.

d. BB is 70 years old and small investor dealing in small quantities since last 5 years.

e. The client fulfilled all his payment obligations and has traded on very few days as compared to the overall trading in the scrip of Moryo.

f. The client was dealing in small quantities in both buy and sell side in the scrip of Moryo.

g. It is impossible for a broker to know the intention of the client while trading. Trading in small quantity was not suspicious and it has a system in place to identify suspicious trades and the trades of BB were far from suspicious.

h. The conclusion arrived in the investigation about trading in small quantity is flawed and devoid of any reason or logic. Nowhere does the securities laws mandate that trades have to be for minimum quantity and that too without recourse to client's interpretation of securities market. The conclusion is that the broker is responsible to ensure that the client places order in large quantities.

i. It is for the buyers to decide to purchase shares at a higher price and hence only the buyers are responsible for any positive LTP, in absence of any connection.

j. As a stock broker the Noticee has exercised proper due diligence and placed orders as per instructions of the client.

k. The strength and effectiveness of internal controls and exercise of due skill, care and diligence by Noticee's is evident from the fact that in past 25 years of its existence, except for some inquires, the company has never faced any punitive or other action in respect price manipulation, inadequate skill, care and diligence etc.

l. There is no doubt that the Noticee as SEBI registered Stock Broker is duty bound to abide by the Code of Conduct specified for Stock Broker which inter-alia requires it exercise due skill, care and diligence. However, application of such skill, care and diligence has to be "Reasonable" and "Prudent".

m. The account of BB was opened through the Noticee's sub broker in 2005. BB has stopped trading through Noticee since November, 2018. However, during his association of 15 years, his conduct has never been suspicious. Thus, adequate skill, care and diligence has been applied by the Noticee while registration and continuing compliance of the client.

n. BB is a regular positional and intra-day trader and investor in cash market. From his trading patters it seems that he predominantly preferred to trade in BSE rather than NSE as most of his trades are placed in BSE only.

o. During the inspection period BB has dealt in more than 35 scrips. The portfolio of BB consisted of variety of stocks ranging from Blue Chip stocks, Mid-cap and even penny stocks.

p. Client had a diversified portfolio and was a regular trader in all types of stocks. His trading pattern is broadly uniform across the investigation period. Since the holding in Moryo is less than 1 % not warranting need for advanced monitoring.

q. It is clear that even on the parameters of nexus or relation, there was nothing suspicious or wrong in the matter and that the Noticee's has acted with due skill, care and diligence.

r. It can be seen from the Analysis of Trade time of order placement and trade execution of BB that it can be seen that there is significant difference between the time of trades placed and trades executed which indicates that the trades are executed in the normal course of business.

s. During the investigation period BB has traded in only 55 shares as against the total market volume of 8965305 shares.

t. The trading pattern of BB has largely remained unchanged during, before and after the IP. BB has also traded in many different stocks during the IP. Further, there were many other clients who have also traded in Moryo during the Investigation Period. The Noticee has a comprehensive, dynamic and automated Surveillance system which has hundreds of in-built parameters for alerts on suspicious, exceptional and extra ordinary transactions which did not provide any alerts on trades done by BB.

u. A routine enquiry was made by the Noticee's RMS team with the Sub-Broker through whom BB was placing his trades. The Sub-Broker informed that BB is a retired 70 years government servant and a small investor who sells stocks in smaller quantities at many occasions. It was further informed that during the period when the shares were sold is smaller tranches was at the time when there was less or no volume in the market in Moryo so anyways even if higher quantities was placed, the same would not have been sold. In fact, higher quantity order placed would not have altered the action. The response of the Sub-broker looked convincing and required no action by the Noticee.

v. It is also pertinent to note that once there were sufficient buyers BB has disposed-off all his holdings in month of December 2013.

w. BB had taken active buy and sell positions during 7 months from January 2013 to July 2013 but in fact his trades have not resulted in overall New High Price.

CONSIDERATION OF ISSUES AND FINDINGS

17. I have carefully perused the reply to the SCN, oral and written submissions of the Noticee and the documents available on record. The issues that arise for consideration in the present case are :

Issue No. I Whether the trading done by the Noticee during the Investigation Period were in violation of Clause A(2) of the Code of Conduct for Stock Brokers as specified under Schedule II read with Regulation 7 (as existed at the relevant time) of the Broker Regulations?

Issue No. II If yes, whether the violation, on the part of the Noticee would attract monetary penalty under Section 15HB of the SEBI Act?

Issue No. III If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5 (2) of the Adjudication Rules?

18. Before proceeding further, I would like to refer to the relevant provisions of Broker Regulations which are reproduced as under:-

"Stock-Brokers to abide by Code of Conduct.

7. The stock-broker holding a certificate shall at all times abide by the Code of Conduct as specified at Schedule II.

Schedule II

A. GENERAL

(1) …

(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."

19. Before proceeding further, it is seen that the Noticee has raised the issue of delay since the transactions in investigation occurred in 2013-14. In this regard, it is important to note that investigation is a complex process and evidences have to be collected from various sources. Further, in the instant matter since the violations were grave there was a separate proceeding for directions which was initiated against few entities. Thus, in order to do justice proper procedure had to be followed and hence it took sometime for the matter to be taken up.

20. It is seen from the reply of the Noticee had contended that it had taken all reasonable care and that there is no lack of due diligence from its side. In order to ascertain whether there is any lapse on the part of the Noticee, it would be pertinent to examine the trading done by BB.

21. It is observed that BB had purchased a total of 26 shares through 21 trades during patch 1. Further, BB sold 25 shares in 15 trades during patch 1. All the trading done by BB is in Odd Lot. The striking feature of the trading of BB is that in 15 trades of 1 share each where BB was the buyer, the change in LTP is Rs. 77.05 i.e. 27.16% of the total market positive LTP. Out of the total purchase done by BB during patch 1 there are 12 trades where there were sellers available in sufficient numbers yet BB placed order for very miniscule quantity. It can be observed from the trading of BB given in Table 3 that on various occasions, BB placed the buy order after the sell order was entered in the system and yet the price of buy order was higher than the sell order in the system. As stated earlier, on many days the trades of BB were the only trades during the day. Out of the 12 trades mentioned in Table 3 above, on 7 days, the BB's trades were the sole trades of the day when BB was the buyer. Even as seller, out of the 14 trades mentioned in Table 4, on 6 days, the BB's trades were the only trades of the day. On two occasions, BB entered into self-trades and contributed to increase in LTP.

22. The ingenuity of BB and his role in increasing the LTP can be seen from the self-trades done by BB. On April 16, 2013, the scrip of Moryo closed at 76. On April 17, 2013, Mr. Shyam Kanheyalal Vyas entered a buy order at 10:30 at a price of Rs. 79.80 with disclosed quantity as 500 shares. BB entered a sell order at 10:32 for one share at 79.80. This trade led to an increase of Rs. 3.80 from previous close of Rs. 76. Subsequently, there was another trade for 45 shares at Rs. 72.5. BB then entered a sell order at 14:34 at a price of Rs. 79.80 for 1 share. This sell order was Rs. 7.3 higher than the last traded price of Rs. 72.5. After entering the sell order BB placed a buy order for 1 share at 14:51 at a price of Rs. 79.8. This buy order of BB matched with his own sell order, thereby increasing the price of the scrip by Rs. 79.80. On next trading day i.e. April 18, 2013, there was no trading in the scrip during the day and BB placed a buy order at 14:51 for one share at a price of Rs. 83.75. As stated

earlier the closing price on April 17, 2013 was Rs. 79.8 due to the self trade of the BB, the buy order on April 18, 2013 was Rs. 3.95 higher than the last traded price. Subsequently, BB entered a sell order at 15:04 for 1 share at a price of Rs. 83.75. This sell order matched with his own pending buy order of establishing a high price in the scrip of Moryo. As this was the only trade for the day, the closing price of the scrip was Rs. 83.75. Thus, it can be seen that BB in 2 self-trades increased the price of the scrip of Moryo from Rs. 72.5 to Rs. 83.75 i.e. an increase Rs. 11.25.

23. BB as a buyer and as a seller has placed his orders of miniscule quantities above the LTP and on most occasions due to sparse trading in the scrip, the trades resulting from these orders contributed to increase in the LTP and the closing price of the scrip. Considering this pattern of trading it was established that BB was not acting as genuine buyer or seller and had no bona fide intention to buy or sell the shares.

24. I have considered the submissions of the Noticee wherein the Noticee has submitted that BB has traded for only miniscule quantity of shares and he was not connected with the company or the other people dealing in the scrip. Further, the Noticee claims that BB traded in around 30 scrips in similar fashion. The Noticee has repeatedly emphasized that it had done all due diligence and the trading pattern of BB was never suspicious as per them and their automated system also didn't show any alert. In the instance explained above, the dealer/sub broker should have easily seen that there is something amiss when a client is doing self trades in a scrip which is fairly illiquid. If two self trades done on consecutive dates in an illiquid scrip are not captured by the dealers of the Noticee or robust surveillance mechanism, then there are serious doubts about the risk management system deployed by the Noticee.

25. As per the submissions of the Noticee, BB was a retired person who used to trade in small quantities. This indicates that BB understood how the market functions and had the knowledge about trading in shares. However, as discussed in the preceding paragraphs, the trading of BB made no economic rationale and could be justified on any ground. It is not possible to understand that when there was sufficient quantity available for buying, why BB was buying shares in such miniscule quantities. Further, when BB had sufficient number of shares, why was he selling such miniscule quantity? These trading indicators ought to have raised doubts in the mind of dealer or the surveillance/RMS team of the Noticee. It is unfathomable how such pattern is classified as normal by the Noticee. Further, it is interesting to note that BB was entering buy and sell orders during the same period for e.g., BB bought 1 share of Moryo on May 20, 2013 at Rs. 138.50. BB then sold 1 share of Moryo on May 21, 2013 at Rs. 132. Subsequently, BB bought another share of Moryo on May 22, 2013 at Rs. 137. Thus, there doesn't seem to be any

rationale for trading in such fashion and this trading pattern looks bizarre. Incidentally, on May 20, 2013 a sell order was available in the system for Rs. 138.50 but BB placed the buy order at 138.60. Similarly, on May 22, 2013 BB entered the buy order at Rs. 138 when the LTP was 132 and the best sell order was available at 137. Thus, from the trading of BB it appears that the sole purpose of entering the orders was to increase the price of shares of Moryo without having any *bonafide* intention of trading in the scrip. It has already been pointed out in SCN that at various occasions BB entered buy order before the sell orders and the price was significantly higher than the LTP.

26. The Noticee has pointed out that it had done all due diligence at the time of opening of the account and the time of trading and there wasn't a shred of doubt in the mind of the Noticee about the trading being done by BB. It has also been brought on record that BB used to visit the office and place his orders in person. In such circumstance the dealer should have immediately noticed that there are no orders in the system and the Noticee's orders are going to result in self trades or that the trades being placed by the Noticee are not normally placed by buyer/seller.

27. In the context of diligence the order of Hon'ble SAT in the matter of **Religare Securities** (Date of order: January 12, 2016) wherein while examining the role of Broker, the Hon'ble SAT observed as follows:

> "*15. Fact that the stock broker has installed requisite parameters in the surveillance system cannot be a ground for the stock broker to be complacent. It is the duty of the stock broker under the Brokers Regulations to constantly monitor the trades executed by the client through the internet based trading platform so as to ensure that the trades are executed in accordance with law and do not disturb the market equilibrium.*
>
> *16. In the present case, even if the appellant had glanced through the trades executed by the said client it would have revealed that the said client had time and again indulged in unusual trades by trading in single share trades and each of such trades contributed price rise by about 2% from the LTP. It is relevant to note that, such unusual trades were executed on nine different dates in the scrip of VIL which was illiquid. If the appellant was vigilant, in monitoring these trades then, certainly the appellant could have noticed the anomaly. Fact that in the past the said client had traded through the internet based trading platform provided by the appellant for crores of rupees in accordance with law cannot be a ground for the appellant to take it easy and wait for the alerts to be generated by the surveillance system put in place by the appellant.*"

28. In the present case, the trades were placed in person and not through internet and hence the Noticee ought to have been much more vigilant as the orders were placed by its dealers. As stated earlier, in an illiquid scrip such order placement should have immediately captured attention of the dealer or the RMS team and failure of Noticee even to spot the orders shows the lack of due diligence by the Noticee.

29. In view of the aforesaid, I find that the Noticee, failed to exercise due diligence and has violated Clause A(2) of the Code of Conduct for Stock Brokers as specified under Schedule II read with Regulation 7 (as existed at the relevant time) of the Broker Regulations.

Issue No. II **If yes, whether the violation, on the part of the Noticee would attract monetary penalty under Section 15HB of the SEBI Act?**

&

Issue No. III **If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5 (2) of the Adjudication Rules?**

30. Since violation of Clause A(2) of the Code of Conduct for Stock Brokers as specified under Schedule II read with Regulation 7 (as existed at the relevant time) of the Broker Regulations by the Noticee is established, I am of the view that the same warrants imposition of monetary penalty upon the Noticee under Section 15HB of the SEBI Act, text of which is produced as under :

SEBI Act

Penalty for contravention where no separate penalty has been provided.

15HB. Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which may extend to one crore rupees.

31. While determining the quantum of penalty under Section 15HB of the SEBI Act, it is important to consider the factors relevantly as stipulated in Section 15J of the SEBI Act which reads as under:-

Section 15J - Factors to be taken into account by the adjudicating officer while adjudging quantum of penalty under section 15, the adjudicating officer shall have due regard to the following factors, namely:-

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

32. It is seen from the submission of the Noticee and the trade data that the manipulative trades which increased the price of the shares of Moryo were for a miniscule quantity and the Noticee doesn't seem to have derived any benefit from the same. Further, the loss caused to investors cannot be quantified. No material is available on record to indicate that the Noticee has repeated its actions.

ORDER

33. In view of the above, after considering all the facts and circumstances of the case and exercising the powers conferred upon me under Section 15-I (2) of the SEBI Act, 1992 read with Rule 5 of the Adjudication Rules, I hereby impose monetary penalty of Rs. 5,00,000/- (Rupees Five Lakhs only) on the Noticee.

34. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order or May 31, whichever is later, either by way of Demand Draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR by using the web link https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html

35. The Noticee shall forward said Demand Draft to the Enforcement Department – Division of Regulatory Action– IV of SEBI. The Noticee shall provide the following details while forwarding the Demand Draft:

    a. Name and PAN of the entity (Noticee)
    b. Name of the case / matter
    c. Purpose of Payment – Payment of penalty under AO proceedings
    d. Bank Name and Account Number
    e. Transaction Number

36. Copies of this Adjudication Order are being sent to the Noticee and also to SEBI in terms of Rule 6 of the Adjudication Rules.

Date: May 29, 2020

Place: Mumbai

PRASANTA MAHAPATRA
ADJUDICATING OFFICER