



SEBI ORDERS COMPILATION: ANNUAL REVIEW AND ANALYSIS – LEARNINGS FROM EVOLVING TRENDS – YEAR II

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“The orders taken include one or multiple regulations related violations on account of broking transactions or broking business. The data is analysed across various perspectives based on compilations which include regulations violated, type of penalty, entities involved, action taken and issues that have led to such regulatory action.”

Data gives out predictive patterns, it speaks louder than words but do we have the patience to listen?

Compliance may not have technical expertise--, but its time Compliance - takes a leadership role in data analysis of risks and violations.

Our data analyst team puts together an annual analysis of SEBI orders w.r.t Broking transactions. This explains the evolving risks faced in broking business and how systems support is essential to eliminate risks on account of inadequate client screening and ensure complete control on surveillance failures and money laundering related violations.

Team AnalyzeNControl presents this year again exclusively for BBF readers, the analysis of SEBI orders specific to broking transactions from 1st Feb 2016 to 28th Feb 2017.

SEBI Orders Analysis with regard to Broking Transactions

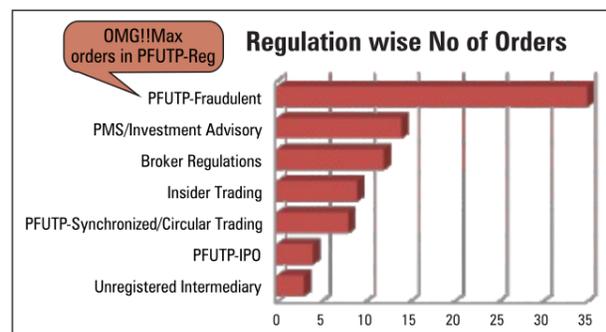
Brief - The orders taken include one or multiple regulations related violations on account of broking transactions or broking business. The data is analysed across various perspectives based on compilations which include regulations violated, type of penalty, entities involved, action taken and issues that have led to such regulatory action.

To clarify the methodology on order grouping in PFUTP, Insider Trading and Unregistered intermediary related Regulation headings:

- PFUTP-Regulations are split into
 - PFUTP-Fraudulent where entities have indulged into price or volume manipulation or misleading

- announcements, or evading Long Term Capital Gains(LTCG),
- PFUTP-Synchronised / Self and Cross-self explanatory
- PFUTP-IPO indicates IPO related fraudulent activity
- Insider Trading includes insider trading and front running cases
- Unregistered Intermediary includes unauthorised sub-broker or authorised person or unauthorised user id cases

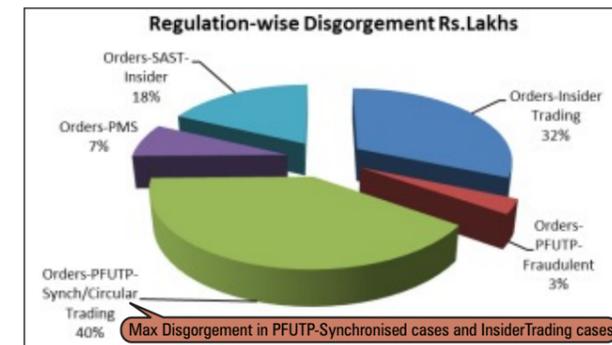
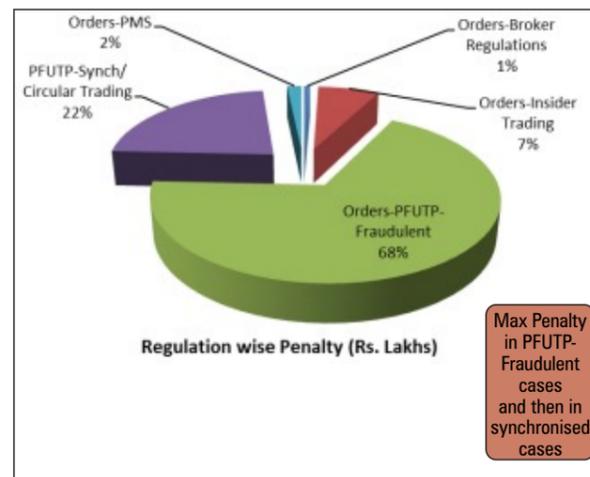
I. To start with let's list the Regulation wise order % analysis



Compliance and Risk teams are also gearing towards better processes and mature systems to help them protect and grow their business from such manipulative elements.

- The graph reflects a quick view of orders released by SEBI regarding multiple issues related to front running, fund mis-utilization, fund settlement, insider trading, manipulation and surveillance failure, misleading announcements, synchronisation, self and cross, tax evasion and money laundering and Unregistered PMS / Investment advisory.

II. Regulation wise Penalty-change



Analysis

- The above graph gives details on regulation wise penalty and disgorgement amount. The major penalty levied under PFUTP fraudulent regulations and disgorgement in PFUTP-Synchronised and Circular trading cases highlight that the issues are related to manipulation and surveillance failure, front running, tax evasion and money laundering. Thus an effective surveillance system is essential to implement and control such probable deviations.
- Unregistered PMS/Investment advisory cases are also on the rise.

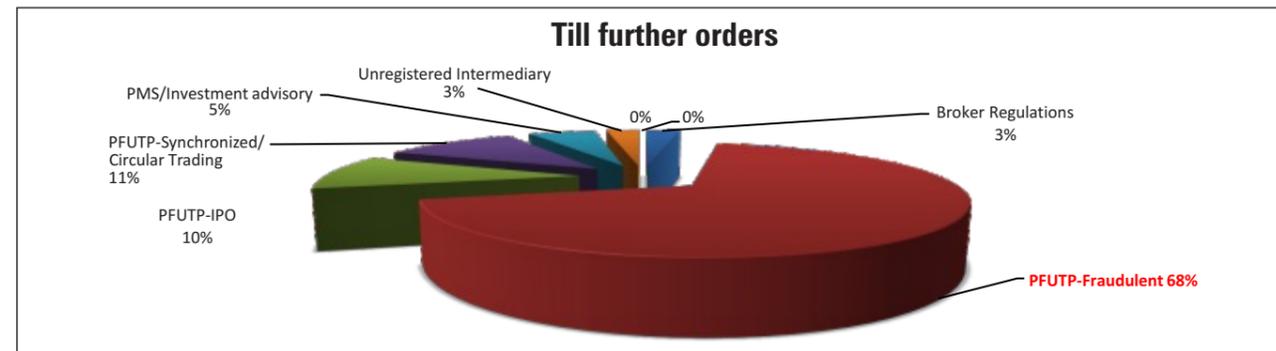
IV. Detailed below are some of the major orders on penalty and disgorgement:

Regulator	Penalty To	Segment	Penalty
SEBI-ORDERS AO --> Notice was doing business as an Investment advisor prior to Registration, which was filed after more than 6 months from commencement of business	Unregistered Investment advisor	Orders- Investment Advisor Regulations	Penalty of Rs. 75 Lakhs.
SEBI - CHAIRMAN / MEMBERS' ORDERS --> Corporate entities--> Notice was engaged in manipulative trades and managed to artificially establish a higher trade price --> heavily traded in market hours and established a new high price.	Investors	Orders-PFUTP-Fraudulent	Impound the unlawful gains of Rs. 8.3 Crores and Rs. 12.54 Crores respectively
SEBI - SAT ORDERS --> Case where notice had not settled quarterly the funds and securities of clients, not removed the period of revocation from running account authorization form even after NSE observations and made fixed monthly payments - -> Argument of the appellant that the monthly payments were made under specific instruction of the clients rejected by the AO.	Broker	Orders-Broker Regulations-Funds settlement	Penalty of Rs 15 Lakhs.
SEBI - SAT ORDERS --> Appellants failed to exercise proper due diligence in the matter of the IPO of CARE by not disclosing true and adequate factual position in the offer document in question.	Broker	Orders-Failure to Provide Information	Penalty of Rs. 1 Crore.
SEBI - SAT ORDERS --> Notice was connected and well acquainted with the Group entities --> notice has communicated the UPSI to the group entities who in turn have traded in the scrip of SIPL on the basis of the UPSI --> entities became insider under PIT Regulation	Companies and related entities	Orders-Insider Trading	Penalty of Rs. 1 Crore.
SEBI - CHAIRMAN / MEMBERS' ORDERS --> Notice had indulged in unusual and aggressive trading in the scrip of L& T Finance Holdings Limited ahead of the announcement of Offer for Sale of shares, and had earned unlawful gains as a result of the trades executed in the scrip of LTFH --> It showed that the Open Interest created by the Notice in the scrip of LTFH was significantly higher than the Open Interest in other scrips, which concluded that the trades of the Notice were influenced by the UPSI.	Investors	Orders-Insider Trading	Notice is directed to disgorge the entire profit unlawfully gained i.e. approx. Rs. 20.05 Crores. with simple interest @ 10% p.a. from March 2014 till the order date.

SEBI - SAT ORDER àCase where company and its director had failed to disseminate price sensitive information to the stock exchanges on time.	Companies and related entities	Orders-Insider Trading	Rs.25 Lakhs.
SEBI - CHAIRMAN / MEMBERS' ORDERS --> Financial company -->Notice had gained unlawful profit in crores for doing front running activity -->Notices passed on information related to impending trade orders from one to another --> Profits were made due to the price fluctuation because of the large orders.	Companies and related entities	Orders-PFUTP-Fraudulent	Debarment of 5 years and Rs.85.18 Lakhs liable to be disgorged by Investor in addition to Rs.112.68 Lakhs already deposited with NSE.
SEBI - CHAIRMAN / MEMBERS' ORDERS -->Order in the matter of Financial Consultants Private Limited -->Entities indulged in manipulative trading activities by transferring funds through connected entities and allegedly made unlawful gains.	Companies and related entities	Orders-PFUTP-Synchronized/Circular Trading	Impound disgorgement of alleged unlawful gains of a sum of Rs 27.44 Crores.
SEBI - CHAIRMAN / MEMBERS' ORDERS --> First Financial Services Ltd -->Notices were found non-compliance with the listing agreement,alleged failure in fulfilling its underwriting obligations, indulgence in price manipulation and also for fraud through the misuse of the exchange platform to convert black money into legitimate money -->Notices have failed to give any plausible reasoning for revocation of the interim order.	Investors	Orders-PFUTP-Synchronized/Circular Trading	Debarment till further orders.
SEBI-ORDERS ADJUDICATING OFFICER Notice did not obtain certificate of registration from SEBI to act as a portfolio manager --> Firm had issued post-dated cheques toward refunds as a guarantee for repayment of principal amount invested which bounced.	Unregistered Portfolio Advisor	Orders-PMS	Penalty of Rs. 25 Lakhs.
SEBI - CHAIRMAN / MEMBERS' ORDERS -->Notice was acting as an Investment advisor and research analyst providing services to investors without necessary regulatory approval and continued the same, completely ignoring the directions issued by the regulator in 2007.	Unregistered Investment Advisor	Orders-PMS	Cease and desist from acting as an investment advisor, research analyst etc.
SEBI - CHAIRMAN / MEMBERS' ORDERS --> In the matter of unregistered Investment Advisory Activities -->Notice provided unregistered investment advisory services promising guaranteed returns.	Unregistered Investment Advisor	Orders-PMS/Investment Advisory	Impounding of disgorgement of unlawful gains of a sum of Rs.5,04 Crores (gain of Rs.3,84 Crores + interest of Rs. 1.20 Crores)
SEBI - CHAIRMAN / MEMBERS' ORDERS -->Corporate entity. and 39 others --> Company made several misleading and incorrect corporate announcements --> Aided and abetted the entities connected in Offloading of shares and facilitated them to make Illegal Gain, Misleading Investing Public on Promoter's Holding and Non-reporting of Acquisition of Shares.	Companies and related entities	Orders-SAST-Insider	Debarment for 3 to 5 years and disgorgement of Rs 12.25 Crores.

Debarment Period	Broker Reg	Insider Trading	PFUTP-Fraud	PFUTP-IPO	PFUTP-Synch/Circular Trading	PMS/Investment advisory	Unregistered Intermediary	Grand Total
Upto 1 year	1						1	2
1 to 5 year		1	5			2		8
5 to 10 year	2							2
Till further orders	1		26	4	4	2	1	38
Suspension up to 1 year	2							2
Cease & desist						5	1	6
Grand Total	6	1	31	4	4	9	3	58

Debarment "Till further orders" is again high on PFUTP-Fraudulent cases



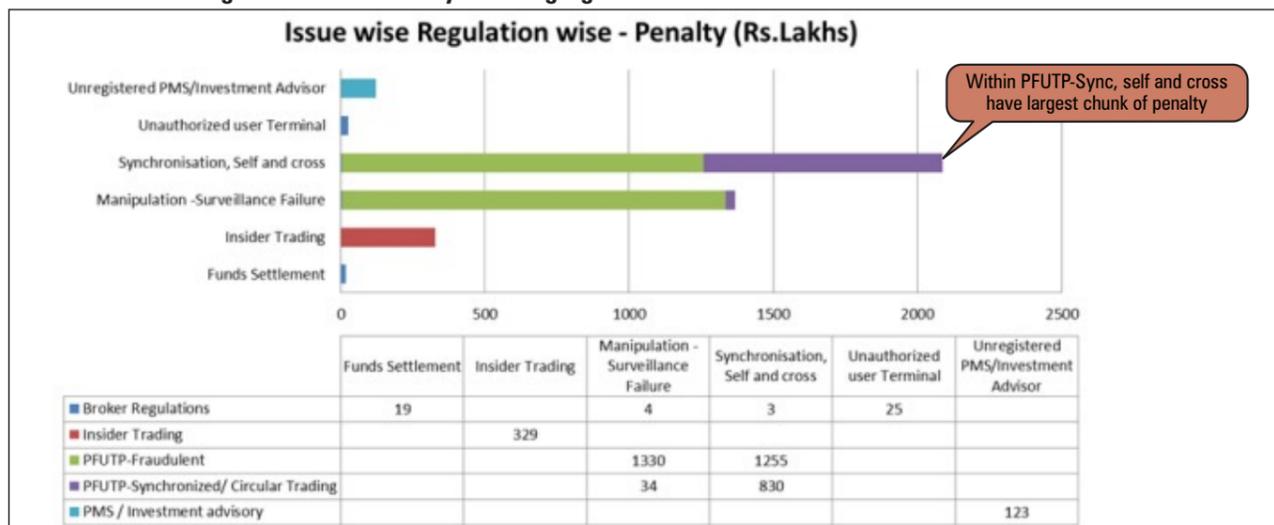
VI. A Quick snapshot on some of the important Debarment orders in each regulation:

Let's review some of the major Debarment orders

Regulator	Penalty To	Penalty
Corporate Investor was involved in manipulative transactions and misuse of the securities market --> He carried out research analyst activities without obtaining regulatory approval. Notice sent SMSes recommending purchase of shares, which attempted to induce investor interest in the scrip, were misleading as details regarding poor financial fundamentals of the company were not shared.	Investors	Debarment till further orders and to cease and desist from disseminating news or messages in any form related to the securities market.
Broker misused the status as Broker/Sub-broker solicited and collected money from the members of public through various fraudulent schemes.	Broker	Debarment till the expiry of 10 years from the date of completion of refunds.
Corporate investor --> Entities allegedly committed a fraud through the misuse of the exchange platform to convert black money into legitimate money --> 102 entities failed to give any plausible reasoning/explanation for their acts and omissions for revocation of interim directions.	Investors	Debarment till further orders.
Financial corporate --> Manipulated the share price and volume by way of fraudulent mobile text messages and websites --> reflects misuse of exchange system to generate fictitious Long Term Capital Gains where buyers were lured to buy to give exit to few shareholders/ preferential allottees--> 39 preferential allottees made a collective profit of Rs 107.43 Crores on a collective investment of Rs 5.22 Crores, a whopping return of approximately 2,060% over their period of investment.	Investors	Debarment till further orders.
Notices were involved in pushing the price contributing to positive LTP through first trades with negligible order quantity, acting as buyers in order to provide exit to Preferential Allottees and in the process creating artificial volumes --> Notices failed to give any plausible explanation for the charges described in the interim order.	Investors	Debarment till further orders.
Broker Case--> case related to tax evasion and money laundering through illiquid stock options contracts -->Notice failed to give plausible reason for complete removal of restraint imposed by the interim order.	Broker	Debarment till further orders.
Investor-case of Mishka Finance and Trading Limited -->Notice was debarred by SEBI till further orders as it was found actively involved in the tax evasion activity -->Notice has failed to give any plausible reason/explanation, hence SEBI disposed request	Investors	Debarment till further orders.
Notice was engaged in manipulative trades and managed to artificially establish higher trade price --> heavily traded in market hours and established new high price.	Investors	Impound the unlawful gains of Rs. 8.3 Crores and 12.54 Crores respectively.
Notice had gained unlawful profit in Crores for doing front running activity -->Notices passed on information related to impending trade orders from one to another --> Profits were made due to the price fluctuation because of the large orders.	Investors	Debarment of 5 years and Rs.85.18 Lakhs liable to be disgorged by Investor in addition to Rs.112.68 Lakhs already deposited with NSE.
The entities indulged in a large number of circular trades, synchronised trades and created artificial volumes in the scrip of Gangotri Textiles.	Broker	Debarment for 1-5 years respectively.

SEBI had confirmed the direction issued in its interim order against the 112 entities as share prices of the stock were "artificially" being raised in order to register "bogus" or fake claims of LTCG.	Investors	Debarment till further orders.
SEBI had confirmed the direction issued in its interim order against the 112 entities as share prices of the stock were "artificially" being raised in order to register "bogus" or fake claims of LTCG.	Companies and related entities	Debarment till further orders is confirmed for 70 entities while the debarment for 9 has been revoked.
SEBI has confirmed the order passed against the notice as they were engaged in tax evasion and money laundering activity through misuse of stock exchange mechanism.	Investors	Debarment till further orders.
Four SME Scrips --> Entities manipulating the share price to launder money, a huge rise in traded volumes and artificially increase of scrip prices.	Investors	Debarment till further orders.

VII. Issue wise - Regulation wise Penalty and Disgorgement cases



Analysis-Penalty cases

The graph reflects details w.r.t. issue wise and regulation wise number of orders and penalty and debarment cases:

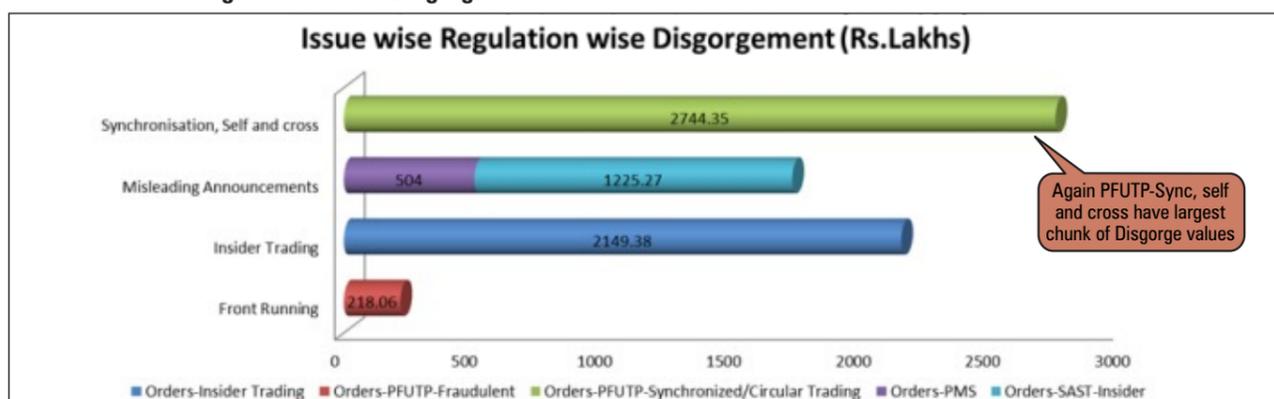
- The major number of orders passed are about Synchronization, Self and Cross, Tax evasion cases and Artificial volumes with misleading corporate announcements-hence requirement of Surveillance and AML again takes a centre stage.
- Numbers of orders in Insider trading/Front running are lower in terms of number of orders but it has substantial share of penalty.
- The funds misutilisation and running account settlement

cases have reduced in terms of numbers and value/intensity in comparison to prior year.

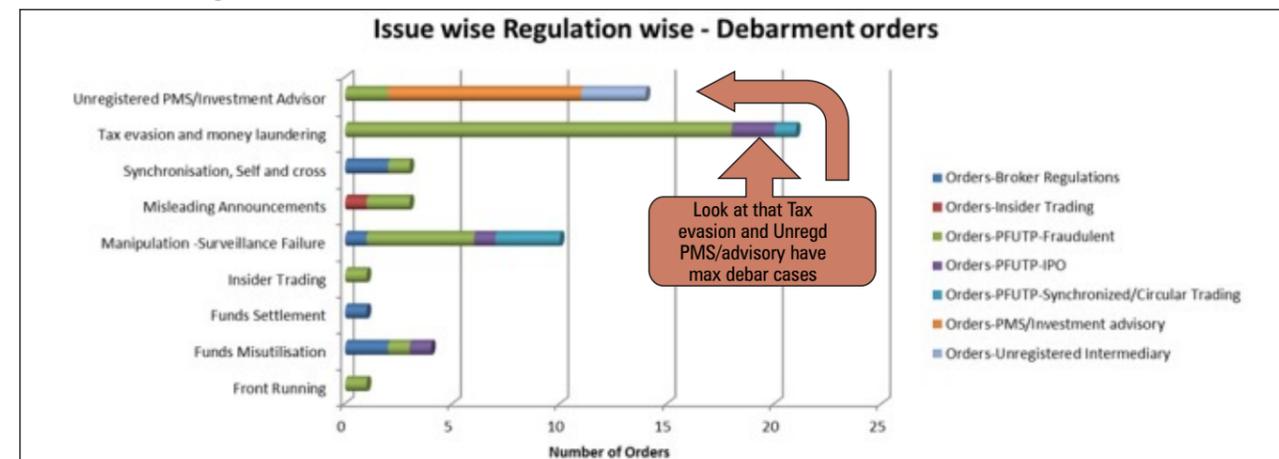
- Unregistered PMS/Investment advisory have also increased in terms of number of cases and penalty value.

The major amount is Penalty for Synchronisation and Self/Cross is approx. Rs.25.00 Crores and Fraudulent cases of Misleading announcements, Tax evasion, AML, artificial volumes with price influence cases amounting to Rs 8.60 Crores ,Insider trading cases amounting to Rs 3.30 Crores and unregistered investment and PMS advisory add upto approx. Rs 1.20 Crores.

VIII. Issue wise - Regulation wise - Disgorgement cases



IX. Issue wise-Regulation wise-Debarment orders



Analysis-Debarment cases

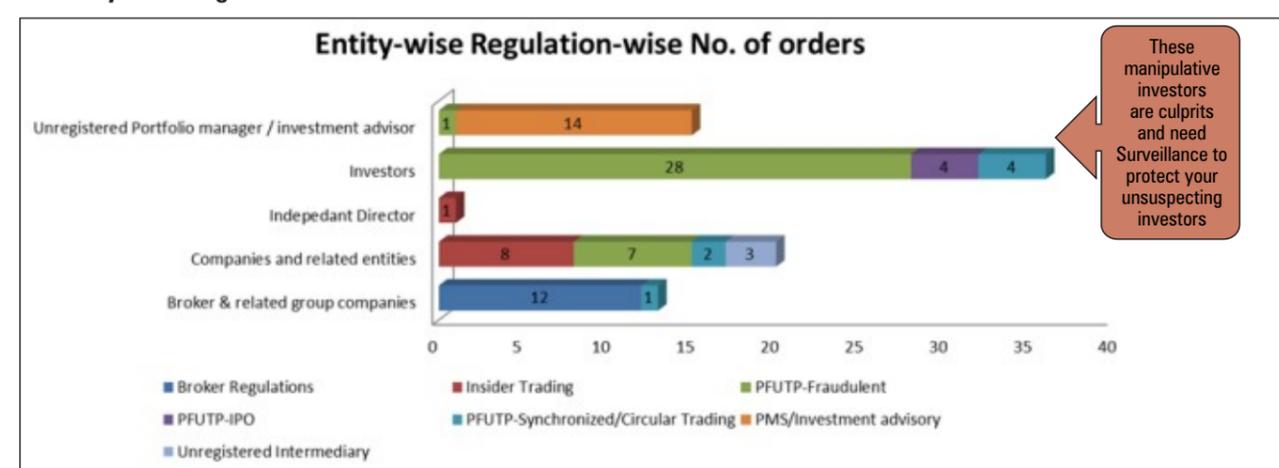
Highest Debarment cases in:

- Tax evasion and Money Laundering cases-
 - › Majority of the cases are related to Abnormal increase in stock prices and dumping including preferential allotment cases and other cases with increase in prices and with huge profit leading to suspected tax evasion and money laundering through stock trading platforms.
 - › Manipulative trading activities by transferring funds

through connected entities and allegedly made unlawful gains.

- › Alleged failure in fulfilling its underwriting obligations, indulgence in price manipulation and also fraud through the misuse of the exchange platform to convert black money into legitimate money.
- Unregistered PMS/investment advisory-
 - › This rise also signifies regulatory alertness for controlling the already mushroomed unregistered portfolio management/investment advisory outfits.

X. Entity-wise Regulation-wise No. of orders



Do we have a Learning?

This graph subtly represents the increasing risks on account of, how "certain investors" take advantage of brokers not tracking risks and such investors are fairly sure that brokers are low on monitoring of multiple patterns of Surveillance and AML transactions.

appetite sets the foundation and tone of its risk management on account of Surveillance and AML Risks. It should be understood that "Risk Appetite" indicates the level of Non or Low Tolerance to risk even if it implies limiting business growth in certain business strategies.

XI. The writing is on the wall

Based on the study of the year's orders, the Indian Broking Industry must take cognizance of the fact that a firm's risk

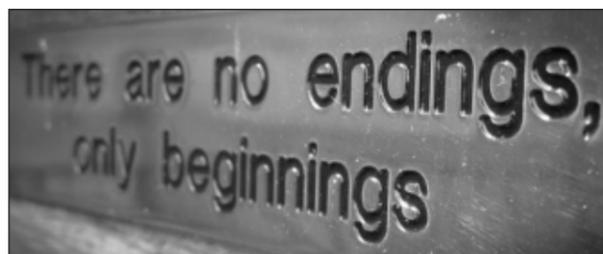
Surveillance and Money Laundering risks cannot be eliminated but can be effectively controlled through good system support.

Client screening data based on SEBI orders or UNSC, OFAC or PEP, Surveillance, AML is ultimately a Compliance responsibility.

The study actually brings to forefront the hard reality staring at the broking and other financial businesses.

Compliance and Risk teams are also gearing towards better processes and mature systems to help them protect and grow their business from such manipulative elements.

And so would like to end on this note that ... A "Beginning" towards understanding that it is time to radically gear up organisational risk monitoring from its traditional approach is a first step and so...



Rekha Shah with Power Update Team - Analyze N Control (www.analyzencontrol.com)

- She is a founder of Analyze N Control which is actively involved in providing solutions to the Capital Markets. Her total work experience is more than 30 years and in Broking industry spans for more than 25 years including employment upto 2002 and then as service provider/software development through ANC
- She has done her Business Management from Jammalal Bajaj Institute of Management Studies,
- She has been invited by various forums including workshops and training held by SEBI (Securities Exchange Board of India), NSE (The National Stock Exchange of India), BBF (BSE Brokers Forum) and ANMI (Association of National members of India) for presiding on the panel with regulators and presenting in seminars especially emphasizing on corporate governance, process reengineering, and compliance, efficiency and risk management.
- AnalyzeNControl also has comprehensive suite of state of the art softwares catering to Broking Industry related to Client Screening, Surveillance, Anti Money Laundering and Circulars/Orders Search Engine and Circulars/Orders Emailing with implications. ANC has released Regulatory Notifications related "Power Alerts" on Android which is complimentary service to Members