

PROFESSIONAL PROGRAMME EXAMINATION (NEW SYLLABUS)

ELECTIVE PAPER 9.2

CAPITAL, COMMODITY AND MONEY MARKET

MODEL QUESTION PAPER

Time allowed: 3 hours

Max Marks: 100

Note: Answer all questions.

Question No. 1

Suppose that the following order has been passed by a Whole-time Member of SEBI.

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM:, WHOLE TIME MEMBER

IN THE MATTER STE LTD

In respect of M/s ROSE (Prop. GHANA)

SEBI Registration No. INB (PAN:)

Sub-broker of XYZ Ltd.

Date of hearing: September 19, 2011

Appearances

For Noticee: Mr. Amit, Advocate

For SEBI: Mr. Mahesh, Deputy General Manager
Ms. Sasmita, Deputy Legal Adviser

ORDER

Under Regulation 28(2) read with Regulation 38 (2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted an investigation in the trading in the scrip of M/s STE Limited (hereinafter referred to as 'STEL' / 'Company') during the period from January 01, 2002 to July 31, 2002. The shares of STEL are listed on Bombay Stock Exchange (hereinafter referred to as 'BSE') and Ahmedabad Stock Exchange (hereinafter referred to as 'ASE'). Investigations, inter alia, revealed that STEL, which had a paid up capital of Rs.3,60,00,000 comprising 36 lakh shares, issued additional shares to the tune of 3 crores on a preferential basis to certain entities . These shares were issued by STEL to the shareholders of two companies, namely M/s. ABC Ltd. (hereinafter referred to as 'ABC') and M/s. PQR Ltd (hereinafter referred to as 'PQR') on swap basis. The shares of STEL so allotted were fraudulently dematerialized using an in-principle listing approval from ASE. Further, it was seen that immediately prior to allotment, several fictitious demat accounts were opened using forged and fictitious documents. The shares allotted on preferential basis were found to have been transferred, in some instances, to such fictitious accounts. Following this, the said shares were routed through various entities and finally offloaded onto unsuspecting investors at BSE, even though BSE had refused listing permission for these additional shares.

2. Pursuant to the said investigation, it was alleged that one of the entities, viz., M/s ROSE (hereinafter referred to as 'ROSE'/ 'the noticee'), received unlisted shares of STEL from various entities in off market transactions and thereafter transferred these shares to brokers who then offloaded the unlisted shares on the market.
3. Based on the findings of investigation, SEBI initiated enquiry proceedings as against the noticee in terms of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as 'Enquiry Regulations'), by appointing an Enquiry Officer under Regulation 5(1) of Enquiry Regulations vide order dated April 7, 2008 to enquire into the alleged violation of the provisions of Regulations 3, 4(b),(c) and 6(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations, 1995') read with Regulations 3(a), (c), (d), 4(1), (2) (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003 (hereinafter referred to as 'PFUTP Regulations, 2003') and Clauses A(1), (2) and D (1), (4) and (5) of Code of Conduct as stipulated in Schedule II under Regulation 15 of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as 'Brokers Regulations'). As the Enquiry Regulations were repealed with the notification of SEBI (Intermediaries) Regulations, 2008, the Enquiry Officer/ Designated Authority (hereinafter referred to as the 'Enquiry Officer') submitted his Report dated November 23, 2009, in terms of Regulation 27 of SEBI (Intermediaries) Regulations, 2008, recommending thereby that the certificate of registration of the noticee be suspended for a period of six months.
4. Subsequently notices dated December 29, 2009 and June 09, 2010 (hereinafter referred to as the 'SCN') under Regulation 28 of SEBI (Intermediaries) Regulations, 2008, were issued to the noticee, asking it to show cause as to why action as recommended by the Enquiry Officer or a higher penalty should not be imposed on the noticee. The noticee was advised to reply to the SCN, within twenty one days from the date of receipt thereof. It was also informed that in case of failure, it would be presumed that it had no explanation to offer and SEBI shall be free to take such action in the manner as it deemed fit. A copy of the Enquiry Report was also forwarded to the noticee along with the SCN.
5. An opportunity of personal hearing was granted to the noticee before me on December 16, 2010. However, the noticee did not appear for the said hearing citing health reasons. The noticee replied to the SCN vide letter dated December 22, 2010. Subsequently, one more opportunity of hearing was granted to the noticee on September 19, 2011. On the scheduled date, Mr Amit, Advocate, appeared before me as the authorized representative of M/s ROSE and made submissions. The noticee has, *inter alia*, submitted as under:
 - i. The noticee was holding these shares in trust for the allottees.
 - ii. The shares were not unlisted shares.
6. I have carefully considered the Enquiry Report, the SCN issued to the noticee along with the submissions of the noticee and other material available on record. Thus, the issue that arises for my consideration is whether the noticee had violated Regulations 3, 4(b),(c), and 6 (a) of PFUTP Regulations, 1995 read with Regulations 3(a), (c), (d) and 4(1), (2) (a) of PFUTP Regulations, 2003 and Clauses A(1), (2) and D (1), (4) and (5) of the Code of Conduct as stipulated in Schedule II under Regulation 15 of the Brokers Regulations.

7. I note that the paid up capital of the company as on January 1, 2002 was Rs.33,60,00,000/- (3,36,00,000 shares of Rs.10/-). The above capital of the company consisted of 3,00,00,000 shares allotted on a preferential basis (swap for consideration other than cash). The shares of the preferential allotment remained unlisted at BSE. Hence, the submission of the noticee that the shares were not unlisted is without merit.

8. I note that the major brokers/sub brokers and their clients who had traded during the investigation period are as under:

Member Broker	Sub-Broker	Major Ultimate Client	Gross Purchase		Gross Sales	
			Shares	%	Shares	%
PLI Pvt. Ltd.		Karan	285053	0.59	14927712	31.21
		Nitin			1988023	4.13
		Yatindra			3454658	7.18
		YC Corporation			274313	0.57
		Total Trading by broker		296023	0.62%	20691706
XYZ Ltd.	Vasu	ROSE			892000	1.85
	JamBhai	Sunil			2003700	4.16
	ROSE	Nitin	31928	0.07	49982	0.10
		ROSE(GHANA)	34948	0.076	38054	0.076
		Total trading by broker		518930	1.08%	3305629
Sampark	SPF (Prop: Pankaj)	Hitendra	10000	0.02	260500	0.54
		Farooq	1004011	2.09	1004976	2.09
		KC Corporation		0.00	1050000	2.18
		Trading account	1071504	2.23	1091952	2.27
		Nitin	146314	0.30	812586	1.69
	Total trading by broker		2529550	5.26%	4452659	9.25%
Imtiaz		Total 273 clients.	10827004	22.50%	6555277	13.62%
Total traded quantity			48116275	100%	48116275	100%

9. As it was observed that a few clients who were the major sellers had sold more than the listed capital of the company, while their purchases were comparatively less as stated above, demat accounts of these clients including Karan, Nitin, Yatindra, ROSE and Sunil, KC Corporation were analyzed to find out the source of their acquisition. Analysis of their demat statements revealed the following:

- i. The preferential allottees had dematerialised the shares they had received in the allotments and had transferred these shares to Rinku and GHANA (proprietor of M/s ROSE, the noticee herein).
- ii. Rinku was holding 5 lakh shares from the preferential allotment and further received 71,81,980 shares from the preferential allottees of ABC Ltd. and 1,90,00,000 shares (on a single day) from the allottees of PQR Ltd..

iii. Rinku transferred 2,33,72,565 shares to GHANA. GHANA also received 11,09,556 shares from some of the other preferential allottees in the scrip during the Investigation period.

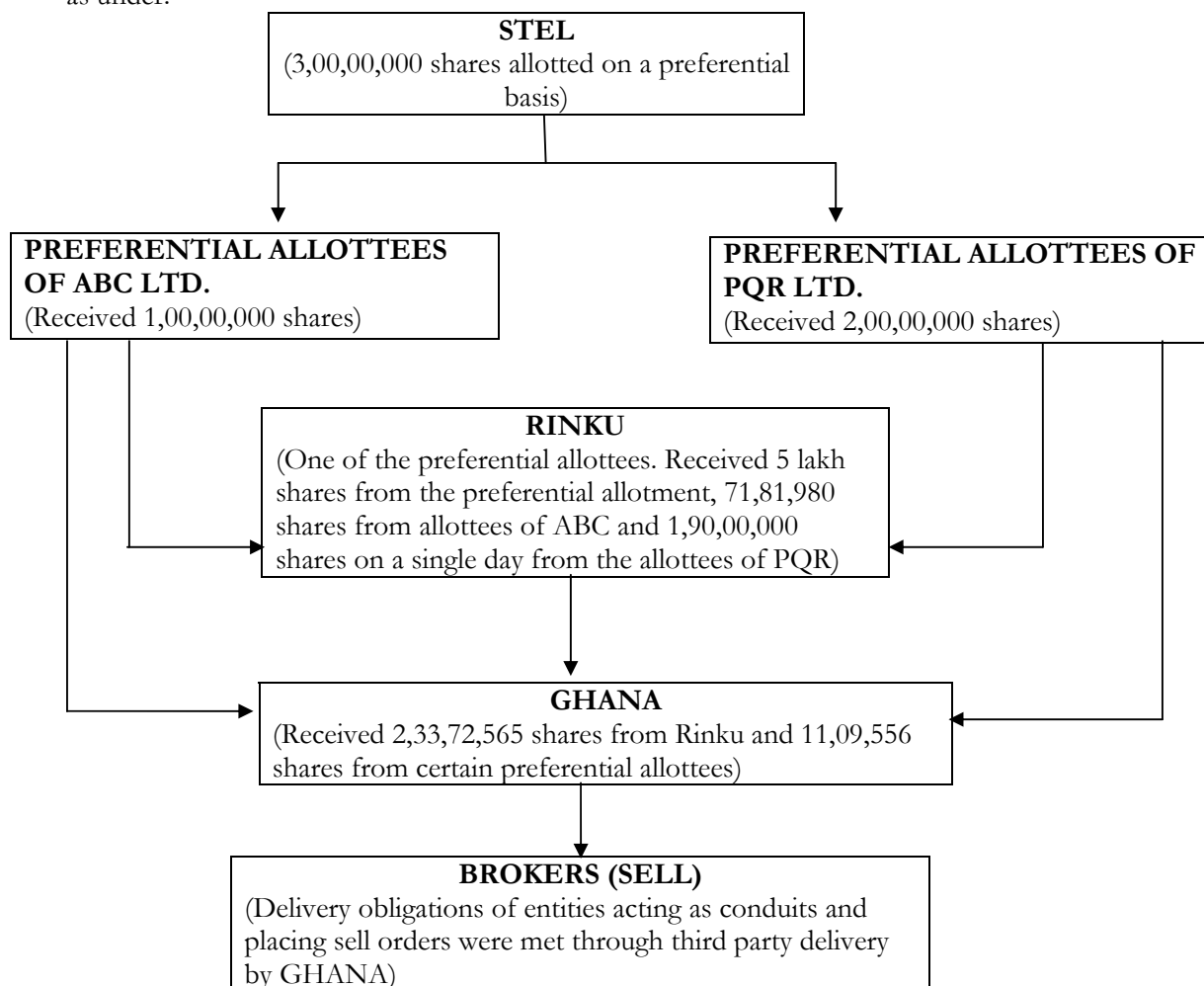
10. Subsequently, the noticee delivered these shares to the brokers/sub brokers, details of which are stated below. The shares were sold in the market by these brokers/subbrokers.

Name of the Broker/sub-broker	No of shares
PLI Pvt. Ltd	2,05,34,963
XYZ Ltd.	20,00,000
SPF	12,68,286

The aforesaid shares were unlisted. Thus, it is alleged that the noticee aided and abetted the allottees in off loading the shares which they received in the preferential allotment.

11. I note that none of the aforementioned entities who traded in the scrip, except GHANA (proprietor of M/s ROSE), had received any shares through off- market transfers, nor had they delivered any shares to the respective brokers. Their delivery obligations were met through third party delivery by Shri GHANA (ROSE).

12. The scheme of manipulation in the scrip of STEL can be represented diagrammatically as under:



13. Thus, I note from the above that the noticee was part of the manipulation in the scrip of STEL as it received shares from the allottees in the preferential allotment through off-market and subsequently transferred to the brokers/sub-brokers for sale through the market.
14. I further note that SPF, one of the entities to whom the noticee transferred the unlisted shares, is related to the noticee. While the noticee has denied that Pankaj, the proprietor of SPF is his cousin, I note that the telephone No..... registered in the name of ROSE, is allotted to the address I note that this is the same address as that of SPF.
15. I also note that 1,83,957 shares were sold by M/s PLI Pvt. Ltd. On behalf of ROSE as client, but contract notes were issued in the name of Mr. Karan. The noticee, during the proceedings before the Enquiry Officer, admitted that the transaction was on behalf of Mr. Karan, and submitted that the same was due to an error and has been rectified.
16. From the above, I find that the noticee has not only received the shares in off market from Rinku and other preferential allottees but also transferred the same to PLI Pvt Ltd., XYZ Ltd. and SPF, who in turn sold them in the market. By doing so, the noticee has aided and abetted the preferential allottees, brokers/sub-brokers and clients in offloading the unlisted shares in the market.
17. In view of the facts and circumstances of the case, the violation of Regulations 3, 4(b), 4(c), 6(a) of PFUTP Regulations, 1995 read with Regulation 3(a),(c),(d) 4(1),(2)(a) of PFUTP Regulations, 2003 and Clauses A(1) (2) and D (1) (4) (5) of Code of Conduct for Stock Brokers as stipulated in Schedule II under Regulation 15 of the Brokers Regulations stands established.
18. Therefore, taking into consideration the facts and circumstances of the case, I, in exercise of the powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby state that the certificate of registration of the noticee, **M/s ROSE (Prop. GHANA) (SEBI Registration No. _____) (PAN: __)** be suspended for a period of six (6) months from the date of this order.
19. This order shall come into effect on expiry of 21 days from the date of this order.

Place:

Date:

Whole Time Member
SEBI

Draft an appeal to Securities Appellate Tribunal under Section 15T of the SEBI Act, 1992 against this order in about 1500 words.

(50 Marks)

Question No. 2

M/s ABC Limited (Target Company) a public limited company listed at NSE and BSE, has total paid up capital of Rs. 13,41,43,160/- comprising of 13,41,43,160 equity shares of Rs 1/-each. The promoter of the Target Company is a body corporate i.e. GB Private Limited (GBPL) (unlisted company) and holding 75% equity share capital of Target Company and balance shareholding is held by Indian Public. The promoters of GBPL are M/s GI Private Limited

(GIPL) holding 90% shareholding of GBPL. The total shareholding of M/s GIPL is held by other three bodies corporate i.e. M/s AH Private Limited (AHPL), M/s AI Private Limited (AIPL) and M/s DR Private Limited (DRPL). The individuals are holding majority shareholdings of all these three bodies corporate viz. AHPL, AIPL and DRPL. Mrs. Jain is holding 21.57%, 24.92% and 28.40% equity stakes in AHPL, AIPL and DRPL respectively. Mrs. Malhotra is holding 23.53%, 19.93 % and 28.40 % stakes in AHPL, AIPL and DRPL respectively. Mrs. Malhotra and Mrs. Jain together with the Person Acting in Concert, who are their relatives, are in control of AHPL, AIPL and DRPL. In the light of the above, explain the following:

- (i) Whether the transfer of all the shares by Mrs. Jain and Mrs. Malhotra in unlisted companies i.e. AHPL, AIPL and DRPL by way of gift to their immediate relative i.e. brother (who is not directly or indirectly part of the promoter group of target company of share holder of any of the unlisted holding company) shall attract the provisions of SEBI (SAST) Regulations, 2011? If the answer is yes, explain with detailed provisions which are attracted.
- (ii) Whether the above said transfer of shares by Mrs. Jain and Mrs. Malhotra in unlisted companies i.e. AHPL, AIPL and DRPL by way of gift to their immediate relative i.e. brother shall be eligible for exemption under the SEBI (SAST) Regulations, 2011? If yes, then subject to which regulation it can claim exemption?
- (iii) Whether for the above said transfer, the individual promoters of AHPL, AIPL and DRPL i.e. Mrs. Jain and Mrs. Malhotra and their brother will be deemed to be qualifying persons for claiming exemption?

(30 marks)

Question No. 3

Hedging has generally proved to be one of the most popular techniques for risk management, it is imperative to test its efficiency, and estimate its effectiveness as a risk management tool in a quantitative manner. How does various future contracts traded in commodity markets of India improves hedging efficiency?

(5 Marks)

Question No. 4

Money market mutual funds are the lowest-risk variety of mutual funds, but they aren't risk-free. Discuss.

(5 Marks)

Question No. 5

Write a short note on how commodity derivative market has helped in price discovery and price risk management.

(5 Marks)

Question No. 6

Compare the settlement mechanism of Capital and Commodity Market.

(5 Marks)
