

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA**

**CORAM: Dr. T.C.NAIR, WHOLE TIME MEMBER**

**AGAINST MAYOR SALUJA SECURITIES, STOCK BROKER OF DELHI  
STOCK EXCHANGE ASSOCIATION LTD., INB050988431**

**ORDER**

**[UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING  
ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY)  
REGULATIONS, 2002]**

**DATE OF HEARING: JULY 14, 2006**

**APPEARANCES:**

**For Noticees:** Shri col. Ajit Mayor, Proprietor of Mayor Saluja Securities Ltd.

**For SEBI:** Shri. Kurianchen, General Manager  
Shri. Rajesh Gujjar, Assistant General Manager  
Shri. Manoj Kumar Singh, Legal Officer

1. M/s Mayor Saluja Securities Ltd., (hereinafter referred to as "MSSL") is a member of the Delhi Stock Exchange Association Ltd. (hereinafter referred to as "the DSE") and is registered with the Securities and Exchange Board of India (hereinafter referred to as "SEBI") as a stock broker under Section 12 of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "the Act") with registration number INB050988431.

2. During 2003, SEBI conducted an inspection of the books of accounts, documents and other records maintained by MSSL for the period from April 2000 to October 2002 under Regulation 19 of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992

(hereinafter referred to as “the Stock Broker Regulations”) and the same was carried out by M/s Uberoi Sood & Kapoor, Chartered Accountants on behalf of SEBI.

3. Certain irregularities / contraventions of SEBI Regulations were observed during the said inspection. A copy of the findings of the Inspection Report was sent to MSSL for his comments on June 18, 2003. A reminder was also sent on October 16, 2003. However, no reply was received from the MSSL.

4. Thereafter, SEBI appointed an Enquiry Officer, vide order dated January 3, 2004 under Regulation 5(1) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as “the Enquiry Regulations, 2002”) to enquire into the alleged irregularities/violations committed by MSSL. The Enquiry Officer issued a show cause notice dated February 23, 2004 in terms of Regulation 6(1) of the Enquiry Regulations to MSSL.

5. The said notice provided the details of the provisions of law and the violations alleged to have been committed by MSSL and also calling upon it to explain why the penalty should not be recommended for the aforesaid violations. MSSL was also advised that if it desired a personal hearing it may indicate the same. In response to the show cause, MSSL replied vide letter dated March 11, 2004. An opportunity of hearing was given to MSSL by the Enquiry Officer on June 15, 2004 wherein Col. Ajit Mayor (Retd.) appeared and made submissions.

6. The Enquiry Officer after completion of enquiry submitted his report dated November 29, 2004 and recommended a penalty of suspension of certificate of registration of MSSL for a period of four months.

7. Based upon recommendation of the Enquiry Officer, a show cause notice dated December 06, 2004 was issued to MSSL under regulation 13(2) of the Enquiry Regulations 2002 asking it to show cause as to why the penalty as considered appropriate including the penalty recommended by the Enquiry Officer should not be imposed upon it. A copy of the enquiry report was also forwarded to MSSL with the said show cause

notice. MSSL vide its letter dated January 04, 2005 replied to the show cause notice. MSSL replied only with regard to the complaint of Paramjeet & Co. wherein they contended that they had not made any of the disputed transactions with Paramjeet & Co. They submitted that the DSE vide its letter dated March 26, 1998 had asked Paramjeet & Co. to submit a copy of documents pertaining to transactions entered between them and the broker, MSSL, viz., contract notes, purchase / sale bills, delivery challan by April 4, 1998 indicating that failure to furnish the same would tantamount to complaint being baseless and the same will be treated accordingly. However Paramjeet & Co. did not submit any documents regarding the disputed transactions to the DSE. In view of the complicity of the matter Paramjeet & Co. was advised to refer to the matter for arbitration. Therefore, they contended that since Paramjeet & Co. has not been able to provide any proof regarding the disputed transactions, there is no cause and hence no dispute exists.

8. Vide letter dated June 14, 2006, an opportunity of personal hearing was granted before me on July 14, 2006 at the regional office of SEBI at New Delhi wherein Shri. Col. Ajit Mayor, Proprietor of Mayor Saluja Securities Ltd appeared before me and made submissions.

9. I have carefully examined the inspection report, enquiry report, the show cause notice issued to MSSL and the reply of the MSSL. My findings are as under:

**(a) Non-maintenance of books of accounts :**

The Enquiry Officer has found MSSL guilty of violating the provisions of Regulation 17 (1) of the Stock Broker Regulations, 1992 and SEBI Circular no. SMD/Policy/IECG/1-97 dated February 11, 1997, the provisions of para A(5) of the Schedule II of Code of Conduct specified under Regulation 7 of the Stock Brokers Regulations and the directives of DSE circular no. 20/2001 dated February 8, 2001. The Enquiry Officer observed that MSSL did not maintain order book for the reason that the orders were being fed directly into the terminal. MSSL submitted that as per the inspection report the order book was the only one which was not maintained and submitted

that MSSL was a small broking company where the majority of clients would come personally to the office and shout Sell/Buy orders after watching the rates on the computer screen. Under these conditions it would be impracticable to first take the clients order in writing and then record it in the order book before executing the same since it took two to five minutes to pass the order and the price fluctuation during this time gap can be very substantial. Nonetheless, I find that MSSL is required to maintain the order book which shows the time of placement and execution of order which is very important from the investor's perspective. I observed that while no order book was specifically maintained by MSSL, the order log book was available through the terminal. However, MSSL was required to maintain a record of when the clients placed the order and reflect the same in the contract notes. This was not done in violation of DSE circular no. 20/2001 dated February 8, 2001 and SEBI circular no. SMD/Policy/IECG/1-97 dated February 11, 1997.

**(b) Irregularities with respect to Contract Notes**

The Enquiry Officer found certain irregularities in the issuing of contract notes by MSSL. Except for institutional clients, MSSL was not affixing broker note stamps on the contract notes issued to clients. The contract notes did not carry the name of the authorized signatory. Duplicate contract notes were not acknowledged by the clients and the contract notes did not provide for the time when the client had placed the order. I find that MSSL while admitting the lapses stated that these anomalies were subsequently rectified by it. Regarding acknowledgement of receipts, MSSL submitted that they made an entry manually stating the contract notes were delivered or handed over and the client's signatures were taken as an acknowledgement. As far as the allegation relating to the time not being printed on the contract note when placed, MSSL has submitted that it was due to the error in the software used by DSE. Considering the submissions made by MSSL, I agree with the enquiry officer that a lenient view may be taken on the alleged violations.

(c) **Dealing with un-registered sub-broker**

The Enquiry Officer found that MSSL dealt with unregistered sub-broker, viz., Sam Investments. Further, it was observed that multiple client codes were entered. However, trades were included in the contract notes issued in favour of Sam Investment. MSSL in its reply to the Enquiry Officer has admitted the fact that they dealt with Sam Investments from November 1999 to July 2001. Sam Investments had applied for registration through the DSE. However his application for registration was returned back by SEBI due to incomplete information. The application could not be re-submitted as MSSL had closed down its operations. Since the broker has admitted the lapse on its part and in view of the fact that it closed its operations thereafter, I am inclined to take a lenient view in this regard.

(d) **Non –Redressal of Investor Grievances**

The Enquiry Officer found that MSSL has not resolved the complaint received from 2 complainants viz., Mr. Ramandeep Singh and M/s Paramjeet & Co. MSSL's contention that there was no investor complaint at the time when inspection was ordered by SEBI is not true. On the contrary, I find that MSSL was selected for inspection on the basis of the said two complaints against it. The complaint of Mr. Ramandeep Singh is sub judice but not closed. As far as the complaint of M/s Paramjeet & Co. is concerned the enquiry officer was of the view that MSSL instead of furnishing the steps taken by it for redressal of grievance has been dwelling into technical aspects related to handling of the complaint. No concrete evidence with respect to the efforts made by MSSL towards the redressal of the grievance has been furnished by it. Furthermore, the enquiry officer found that the complaint of M/s Paramjeet & Co. is still pending. However, I find that with regard to the complaint of Paramjeet & Co., MSSL had not made any of the disputed transactions with them. The DSE vide its letter dated March 26, 1998 had asked Paramjeet & Co. to submit a copy of documents pertaining to transactions entered into between them and the broker, MSSL, viz., contract notes, purchase / sale bills, delivery challan by April 4,

1998 indicating that failure to furnish the same of which would tantamount to complaint being baseless and the same will be treated accordingly. However Paramjeet & Co. did not submit any documents regarding the disputed transactions to the DSE. In view of the complicity of the matter Paramjeet & Co. was advised to refer the matter for arbitration. I find that there is no evidence that Paramjeet & Co. have initiated arbitration proceedings. Therefore, since Paramjeet & Co. has not been able to provide any proof regarding the disputed transactions nor have they filed for arbitration as per the letter dated April 24, 1998 by DSE advising them to refer the matter to arbitration, no punitive action is warranted against MSSL.

**(e) Non-reporting of off the floor transactions and acting as unregistered sub-broker.**

The Enquiry Officer found that MSSL routed the orders to purchase/sell shares for their clients at other exchanges through the brokers of other exchanges which were reflected in its books of accounts. MSSL had indulged in buying/selling shares from National Stock Exchange Ltd. through Consortium Securities Ltd (CSL) and at Bombay Stock Exchange Ltd. through CSL Ltd., for its clients without having registered itself as its sub-broker with SEBI. These transactions were also not reported to the exchange. MSSL has admitted the fact that it transacted at NSE/BSE through the brokers of these exchanges without having registered itself as their sub-broker with SEBI. MSSL's submission that they were under the impression that since they were already registered with SEBI as a broker, it was not incumbent to again seek registration as a sub broker also is not acceptable as requirements in this regard have been spelt out in various circulars issued by SEBI and stock exchanges. Thus, I find that MSSL has contravened Section 12 of the SEBI Act and directives issued vide SMD/OPG/AA/1020/96 dated March 14, 1996 and SMD/POLICY/CIR-3/98 dated January 16, 1998/. MSSL has also admitted non reporting of such transactions. However, since the impugned transactions were executed on the floor of NSE and BSE, no action on MSSL is warranted.

**(f) Indulging in business other than securities business**

The Enquiry Officer found that though MSSL was not running any other business, its directors were holding directorships in Ajit Mayor & Co. (P) Ltd. which was incorporated on December 12, 1996 carrying business of running departmental store and restaurant. MSSL has admitted that since 1997, Col. Ajit Mayor and Anupama Mayor the whole time directors of MSSL have also been directors in Ajit Mayor & co. which has been carrying business of departmental stores since 1997 and of restaurant since 2002. MSSL has in the inspection report been found to have violated Rule 8(1) (f) and Rule 8(3) (f) of the Securities Contracts (Regulation) Rules, 1957. I find that as per the Rule 8(1) (f) of the said Rules, no person shall be eligible to be elected as a member if he is engaged as principal or employee in any business other than that of securities except as a broker or agent not involving any personal financial liability unless he undertakes on admission to sever his connection with such business. I find that MSSL as a legal entity itself has not violated the said rules as MSSL has not engaged in any other business. Therefore, I find that Rule 8(1) (f) and Rule 8(3) (f) of the Securities Contracts (Regulation) Rules, 1957 would not be applicable.

**(g) Broker Client Relationship**

The Enquiry Officer found that client agreements were not available for 46 clients. Further, inadequacies such as non-attachment of photographs, PAN no. and copies of agreement were found in the client data base. MSSL has admitted that due to closure of business, there was difficulty in completing the database as per SEBI norms. MSSL further admitted that the lapse in non-maintenance of client agreement occurred due to lack of awareness about such requirements. MSSL has therefore, admitted that it has not maintained the client agreement and thus, I find that MSSL has violated SEBI directions issued vide circular SMD/POLICY/IECG/1-97 dated 11 February 1997, SMD/POLICY/CIR/5-97 dated April 11, 1997, DSE circulars no. 30/97 and 40/97 dated March 17, 1997 and May 28, 1997 and also provisions of Rule 4(b) of SEBI Rules and para A(5) of Schedule II specified under Regulation 7 of SEBI Regulations. However,

since there are no investor complaints on account of this, I am inclined to take a lenient view.

**(h) Non Appointment of Compliance Officer**

The Enquiry Officer found that MSSL had not appointed any compliance officer and no such intimation had been sent to the exchange in this regard. I note that as per Regulation 18A of the Stock Brokers Regulations, which was inserted by SEBI (Investment Advice by Intermediaries) (Amendment) Regulations, 2001 which came into effect from May 29, 2001, every stock broker is required to appoint Compliance Officer who shall be responsible for monitoring the compliance of the Act, Rules and Regulations, notifications, etc. issued by the Board or Central Government. MSSL's submission that the notification was received by them after July 2001 and therefore the provision is not applicable is unacceptable. MSSL is supposed to be aware of all the amendments in the Regulations and cannot plead ignorance of law. However, I have noted that MSSL had stopped trading w.e.f July 2001 and as such the non compliance had been only for a span of 2 months after the amendment which came into effect from May 29, 2001. Therefore, no penal action is warranted on MSSL.

**(i) Non-Submission of Audited Annual Accounts**

The Enquiry Officer found that MSSL has not submitted the audited annual accounts to the exchange on time and thereby violated SEBI Circular No. SMD/SED/0072/92 dated December 31, 1992. The circular states that a stock broker should submit audited reports for a financial year by September 30 of the next financial year, whereas MSSL had submitted its audited report along with the balance sheet and profit and loss account on October 20, 2001 for the financial year 2000-2001 and on December 24, 2002 for the financial year 2001-2002. MSSL has admitted the delay in submitting the copies of the audit report thereby violating the said circular. MSSL, however, stated that the delay in submitting copies of the Audit report with the DSE was due to oversight. I find that the contention of oversight as reason for delay is not tenable and

therefore, I find MSSL in violation of SEBI Directives vide circular no. SMD/SED/0072/92 dated December 31, 1992.

10. I have considered all the facts and circumstances of the case. I am in agreement with the recommendations of the Enquiry Officer who has recommended for a lenient view in case of non maintenance of books of accounts, irregularities with respect to contract notes and non appointment of compliance officer. The allegation regarding MSSL indulging in business other than securities business is also not established. With regard to other charges, considering the technical nature of the violations/lapses in substantial part, a minor penalty of 'censure' would suffice to have a deterrent effect on MSSL.

#### **ORDER**

11. Now, therefore, in exercise of the powers conferred vide Regulation 13(4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby impose a minor penalty of 'censure' on Mayor Saluja Securities Ltd., INB 050988431.

12. This order shall come into force with immediate effect.

**Place : Mumbai**

**T.C.Nair**

**Whole Time Member**

**Date : 14.05.2008**

**Securities and Exchange Board of India**