

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13 (4) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002 AGAINST MATHRAN SECURITIES LTD, MEMBER CALCUTTA STOCK EXCHANGE

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- 1.0 Mathran Securities Limited (hereinafter referred to as "the Member"), is Member of Calcutta Stock Exchange (CSE), with office at 506, Vaishno Chambers, 6, Brabourne Road, Kolkatta – 700 001, holds a SEBI Regn No. INB 03070936.
- 1.1 Based on inspection report dated 11th July 2002 submitted to the Board by the inspection authority, vide order dated 16th September 2002 an Enquiry Officer was appointed to enquire into the following violations by the Member:
- a) CSE's notice dated 16th September 1999 and CSE's Bye-laws 332 and 334 (iii)
 - b) Regulation 4 (b) of the Securities and Exchange Board of India (Prohibition of Fraudulent and unfair trade practices) Regulations 1995 (hereinafter referred to as "FUTP Regulations").
 - c) Rule 4 (b) of Securities and Exchange Board of India (Stock Brokers and Sub Brokers) Rules, 1992 (hereinafter referred to as "Broker Rules") and regulation 7 of Securities and Exchange Board of India (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as "Broker Regulations") read with Clauses A (1, 4 and 5) of Code of conduct stipulated in Schedule II of Broker Regulations.
 - d) Rule 8 (1) (f) of Securities Contracts (Regulation) Rules, 1957
- 2.0 The Enquiry Officer issued a notice of enquiry under regulation 6 (1) of Securities and Exchange Board of India (Procedure for holding enquiry by enquiry officer and imposing penalty) Regulations, 2002 (hereinafter referred to as "the said Regulation") dated 23rd September 2002 to the Member, for above-mentioned alleged violations.
- 2.1 The member vide its letter dated 21st October 2002 submitted its reply to the above mentioned show cause notice inter alia stating as follows. Member submitted that violation of CSE Byelaws & Notice dated 16th September 1999, if any, was due to non-awareness of the relevant regulations and was purely unintentional. Also that Off-the-floor transactions were normally reported to the exchange but due to some administrative lapse, some such transaction might have remained unreported to CSE.
- 2.2 Member further submitted that CSE has imposed a penalty including other charges amounting to Rs. 5.80 lacs which has been duly paid by them in conformity with the above bye laws of the CSE.
- 2.3 With regard to violation of FUTP Regulations, the Member submitted that most of the transactions were done on the floor of the exchange, during the relevant period. Off-the-floor transactions as pointed out by enquiry officer, vis-a-vis floor transactions of the firm in CSE is as follows:

	Amount (Cr.)	%age
Total business volume as per Exchange Certificate	6716.49	98.8
Off-the-floor transaction which are not converted into Delivery	18.68	1.2

- 2.4 Member claimed that the percentage of such transactions as compared to their total business volume is very small and a negligible fraction. Adding that the transactions were carried out as a business necessities for trade commitments and all the deals have been liquidated with the financial payments which show that no fraudulent practices were practices against the counter party and that all these deals are also recorded by the counter parties.
- 2.5 With regard to violation of Rule 4 (b) of Brokers Rules read with Code of Conduct of Broker Regulations, member submitted that they had not done any transaction with the object of generating brokerage or commission and that the total volume was insignificant and there was no misleading quotation or information.
- 2.6 With regard to violation of Rule 8(1)(f) of Securities Contracts (Regulation) Rules 1957, member submitted that they had entered into all the transactions with counterparty in connection with or incidental to or consequential upon the securities business in terms of SEBI Circular No. SMD/Policy/Cir-6/1997 dated 7th May 1997.
- 2.7 Member prayed that unintentional violations if any to be condoned and assured non recurrence of the violations in future and requested SEBI to drop the proceeding initiated against them.
- 2.8 A hearing was conducted by the enquiry officer on 3rd March 2002 during which Shri Atamaram Mathran, Director, Mathran Securities Ltd., appeared before the enquiry officer. When questioned about the monetary penalty that the member claimed to have paid to CSE, member stated that CSE imposed fine of Rs. 5000/- vide its letter dated 17th April 2002 for failure to report off-the-floor transactions pursuant to the inspection held on 24th July 2001. CSE also collected Rs. 75, 000/- towards settlement guarantee fund and Rs. 5, 00, 000/- interest free non refundable deposit to be adjusted over a period of time against 50% of turnover charges payable to CSE. Member admitted during the enquiry that there was delay in delivering

securities while answering a question on delay in delivering the securities. When questioned about loan transactions, the member admitted that some money was taken and some money was given by them.

- 3.0 The enquiry officer submitted his report to the Board on 27th March 2003 and had recommended a penalty of suspension of registration of the member for four months.
- 3.1 After considering the enquiry report, a show cause notice under regulation 13 (2) of the said Regulations dated 8th April 2003 was issued to the Member informing him of the enquiry officer's finding and requiring him to show cause as to why action should not be taken against him as recommended by enquiry officer. A copy of enquiry report was also annexed to this. It was also stated in the said show cause notice that if the member desired a personal hearing before the Chairman the same should be intimated in the reply.
- 3.2 The Member vide his letter dated 24th April 2003 replied to the show cause notice stating that he did not wish to add anything to what he had already submitted. He also did not express any desire for a personal hearing. However, he pleaded not to impose a major penalty of suspension of registration for four months and that the mistakes would not be repeated in future.
- 4.0 I have carefully, considered the findings of the enquiry officer and the submissions made by the member. I find that
- 4.1 The member has done off-the-floor transactions as established by the enquiry. The member has not disputed the same. The member had indulged in off the floor transactions in the scrips of DSQ, HFCL, Global Tele, Zee, etc. with other brokers of CSE. The details of which are as follows

Name of the Broker : Sanjay Khemani

Name of the scrip : HIMACHAL FUTURISTIC

Date of transaction	Member's Buy / Sell	Quantity	Amount (As per difference bill)
16/02/2001	SELL	130000	25120000.00
22/02/2001	BUY	130000	
09/02/2001	SELL	20000	Delivery on 25.04.2000 (Physical)

Name of the scrip : ITC Ltd

Date of transaction	Member's Buy / Sell	Quantity	Amount (As per difference bill)
02/02/2001	BUY	80000	6400000.00
08/02/2001	SELL	80000	

Name of the scrip : ZEE TELE

Date of transaction	Member's Buy / Sell	Quantity	Amount (As per difference bill)
16/02/2001	BUY	5000	700000.00
21/02/2001	SELL	5000	
23/02/2001	BUY	175000	12162500.00
01/03/2001	SELL	175000	
06/04/2000	BUY	40000	Delivery on 14.04.2000

Name of the scrip : GLOBAL TELE

Date of transaction	Member's Buy / Sell	Quantity	Amount (As per difference bill)
16/02/2001	BUY	150000	17645000.00
22/02/2001	SELL	150000	
23/02/2001	BUY	215000	31666000.00
27/02/2001	SELL	215000	

Name of the Broker : Doe Jones

Name of the scrip : HIMACHAL FUTURISTIC

Date of transaction	Member's Buy / Sell	Quantity	Delivery date
04/01/2001	SELL	33000	12.02.2001

Name of the Broker : Arihant Exim

Name of the scrip : DSQ SOFTWARE

Date of transaction	Member's Buy / Sell	Quantity	Delivery date
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08/03/2001	SELL	162000	08.03.2001
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Name of the Broker : D K Singhaia

Name of the scrip : SATYAM

Date of transaction	Member's Buy / Sell	Quantity	Delivery date
03/08/2000	SELL	1800	14.08.2000
29/09/2000	SELL	10500	03.10.2000

Name of the scrip : HIMACHAL FUTURISTIC

Date of transaction	Member's Buy / Sell	Quantity	Delivery / Bill date
05/03/2001	BUY	14000	07/03/2001
05/10/1999	BUY	65000	13/10/1999
25/11/1999	BUY	50000	25/11/1999
08/12/1999	BUY	42000	16/12/1999
		10000	08/12/1999
13/12/1999	BUY	40000	22/12/1999
22/12/1999	BUY	20000	23/12/1999
06/01/2000	SELL	42800	12/01/2000
07/01/2000	BUY	100000	07/01/2000

- 4.2 However, the member submitted that the volume of off-the-floor transactions was of very small and a negligible fraction compared to their total business and that these transactions were done out of business necessities but not with any malafide intention. In its submission before the enquiry officer the member had stated that the same had occurred as they were not aware of SEBI circular no. SMDRP/Policy/Cir-32/1999 dated 16th September 1999 which includes Off-the-floor transactions. Off-the-floor transactions tamper with price discovery mechanism of the exchange and such trading leads to interference with the fair and smooth functioning of the market. Non-reporting is in violation of item 4 of clause A of Code of Conduct read with regulation 7 of Broker Regulations. The volume of off-the-floor even though very small or negligible would not make the violation any less. Not being aware of SEBI circular is no excuse as a market intermediary has the responsibility to keep himself abreast of law. Member's submission that he had done off-the-floor transactions out of business necessity and not with a malafide intention is devoid of any force and not acceptable.
- 4.3 The member had submitted that CSE had already imposed a fine of Rs.5.8 lacs in connection with the off-the-floor transactions. CSE imposed penalty of Rs. 5000/- for the member's failure to report the off-the-floor transactions. CSE collected Rs. 75, 000/- towards settlement guarantee fund and Rs. 5, 00, 000/- interest free non refundable deposit to be adjusted over a period of time against 50% of turnover charges payable to CSE. It is clear that CSE had imposed a penalty of only Rs. 5, 000/- and not Rs.5.8 lacs as wrongly contended by the member. In fact The balance money collected by CSE was towards trade settlement guarantee fund and interest from non-refundable deposit and not toward fine or penalty. Therefore, the member tried to mislead the enquiry.
- 4.4 The member had delayed in deliveries and admitted the same in his reply to the enquiry officer. The following are the instances where the delivery was delayed

Name of the Broker : Doe Jones

Name of the scrip : HIMACHAL FUTURISTIC

Date of transaction	Member's Buy / Sell	Quantity	Delivery date
04/01/2001	SELL	33000	12.02.2001

Name of the Broker : D K Singhaia

Name of the scrip : SATYAM

Date of transaction	Member's Buy / Sell	Quantity	Delivery date
03/08/2000	SELL	1800	14.08.2000
29/09/2000	SELL	10500	03.10.2000

Name of the scrip : HIMACHAL FUTURISTIC

Date of transaction	Member's Buy / Sell	Quantity	Delivery / Bill date
05/10/1999	BUY	65000	13/10/1999
08/12/1999	BUY	42000	16/12/1999
13/12/1999	BUY	40000	22/12/1999
06/01/2000	SELL	42800	12/01/2000

SEBI vide its notification no. S.O. 184(E) dated 1st March 2000 issued under section 16 of SC(R) Act banned all the transactions which is not as per the byelaws of the stock exchange and also SC(R) Act. In case of spot delivery, payment and delivery has to be made within 48 hours. Thus the broker is guilty of violation of item 5 of clause A of Code of Conduct read with regulation 7 of Broker Regulations.

- 4.5 The enquiry report had also brought out the instances where the member had made payments from client ledger and received funds from the other members of CSE but were not backed by transactions. The member during the hearing before the enquiry admitted having lent money and borrowed money. The details of which are as follows

Sl.No.	Name of the broker	Date of transaction	Cheque No.	Amount (Rs.)
1.	D.K.Singania	08/05/2000	492339-UBI	25640000.00
2.	D.K.Singania	08/06/2000	492359-UBI	27800000.00
3.	D.K.Singania	28/06/2000	492376-UBI	24000000.00
4.	D.K.Singania	09/11/2000	477964-Indusind	10400000.00
5.	D.K.Singania	05/12/2000	402458-Indusind	35300000.00
6.	A.K.Poddar	23/11/2000	477972-Indusind	38500000.00
7.	A.K.Poddar	01/12/2000	402455-Indusind	24000000.00
8.	A.K.Poddar	10/01/2001	402477-Indusind	4100000.00
9.	A.K.Poddar	19/02/2001	402496-Indusind	16900000.00
10.	Biyani Securities Pvt. Ltd.	01/12/2000	402453-Indusind	3640000.00
11.	Harish Chandra Biyani	12/08/2000	477917-Indusind	1000000.00
12.	Harish Chandra Biyani	16/11/2000	477966-Indusind	1700000.00
13.	Harish Chandra Biyani	29/11/2000	364163-ABN Amro	1400000.00
14.	Harish Chandra Biyani	01/12/2000	402454-Indusind	5365000.00
15.	Sanjay Khemani	08/06/2000	492360-UBI	24900000.00
16.	Sanjay Khemani	14/06/2000	492361-UBI	20000000.00
17.	Sanjay Khemani	16/06/2000	492364-UBI	13500000.00
18.	Sanjay Khemani	30/08/2000	364134-ABN Amro	27500000.00
19.	Sanjay Khemani	01/12/2000	492392-UBI	35300000.00

Giving money as loan to other broker from the account of the client is in violation of byelaws of the exchange and SEBI circular no. SMD\SED\Cir\93\23321 dated 18th November 1993. It has been mandated in the said circular that a broker cannot use money of the client for any other purpose and the same has to be kept segregated only for his transactions. The member has thus violated the above mentioned circular and failed to be fair to his clients as required under items (6) of clause B of Schedule II read with regulation 7 of the Broker Regulations. The member has also entered into money lending transactions which is in violation of rule 8(1)(f) of SC(R) Rules of loan transactions like a professional lender of money.

- 5.0 In view of the above, I find that the Member is guilty of violating Rule 4 (b) of Securities and Exchange Board of India (Stock Brokers and Sub Brokers) Rules, 1992 and regulation 7 of Broker Regulations read with Clauses A (1, 4 and 5) of Code of conduct stipulated in Schedule II of Securities and Exchange Board of India (Stock Brokers and Sub Brokers) Regulations, 1992.
- 5.1 As a registered market intermediary, the member is under a positive obligation to abide by the Code of Conduct. Conforming to the Code of Conduct is a condition precedent for continuation of his registration. The misconduct of the member, therefore, warrants imposition of a penalty in terms of regulation 13 (1) (b) of the Securities and Exchange Board of India (Procedure for holding enquiry by enquiry officer and imposing penalty) Regulations, 2002.
- 5.2 Therefore, in the interest of the securities market and in exercise of the powers conferred upon me under sub-section (3) of Section 4 of the SEBI Act, 1992 read with sub-regulation (4) of regulation 13 of the Securities and Exchange Board of India (Procedure for holding enquiry by enquiry officer and imposing penalty) Regulations, 2002, I hereby order that the registration of Mathran Securities Ltd, (SEBI Reg No INB30707936) Member, Calcutta Stock Exchange, be suspended for a period of four months.
- 5.3 This order shall come into effect after expiry of three weeks from the date of this order.

G. N. BAJPAI

PLACE: MUMBAI

CHAIRMAN

DATE : May 29, 2003

SECURITIES AND EXCHANGE BOARD OF INDIA