

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002, AGAINST M/s. INTEC SHARE AND STOCK BROKERS LIMITED.

1.0 BACKGROUND OF THE CASE :

1.1 M/s. Intec Share and Stock Brokers Ltd. (hereinafter referred to as 'the broker') is a member of National Stock Exchange of India Ltd. (hereinafter referred to as NSE) and registered with Securities and Exchange Board of India (hereinafter referred to as SEBI) vide registration no. INB 230877337.

1.2 An inspection of books of accounts, documents and other records of the broker was conducted in the year 2001 by JP Kapoor and Uberai, Chartered Accountants on behalf of SEBI. A copy of the inspection report was forwarded to the broker by SEBI vide letter dated 05.05.2001. The broker submitted its reply and on not being satisfied with the reply of the broker vis-a-vis the inspection report, an enquiry officer was appointed vide Order dated 24.06.2002 to conduct an enquiry into the contravention/s alleged to have been committed by the broker.

2.0 ENQUIRY REPORT AND RECOMMENDATION :

2.1 The enquiry officer, after conducting the enquiry as per the prescribed procedure submitted a report dated 20.12.2002. The extract of the findings of the enquiry report are reproduced hereinunder -

"APPRECIATION OF EVIDENCE AND FINDINGS

As regards the charge that the member has delayed making payments to the clients beyond the permissible period of 48 hours, the show cause notice dated 28th Aug '02 at Annexure F furnishes the details of 55 clients where there is a delay / non payment. The member had submitted that the client have authorized him to retain the proceeds for adjustment against the next settlement and furnished Authorization letter given by the clients in this regard. These letters have been perused. Since it is for the benefit of the client that SEBI has directed that the payments to be made within 2 days and the client by his own request has advised the broker to retain the proceeds for future purchases or margin requirements, the broker's explanation backed by the necessary authorization letters from the client is satisfactory and may be accepted.

However, in the following cases no such Authorization letters were filed :

S. No.	Name of client	Amount	Delay
1.	Aroma Securities Ltd.	7,217.75	Not paid
2.	BFI (CS16)	7,046.15	Not paid
3.	Arun Garg	1,394.58	Not paid till 31.03.00
4.	Bonanza Portfolio	8,516.50	9 days
5.	Cosmopolitan enterprises	92,950.00	4 days
6.	Dinesh Negi	35,765	3 days
7.	Genesis Dreams	2,25,455.00	6 days
8.	VIL	4,24,132.00	4 days

Therefore, to the extent of above cases, the member has not made the payment to the clients within 2 days which is in violation of SEBI Circular SMD/SED/CIR/93/23321 dated 18.11.93. As can be seen from the above table in some of the cases the payments have not been made.

2) Contract notes not bearing preprinted serial numbers and client acknowledgment in duplicate copy of contract note not maintained.

With reference to the above irregularity, it was replied that the contract notes serial number was on a daily basis due to software limitations which is now rectified. Since the clients do not personally collect the contract note, copies of the courier slips are maintained in lieu of acknowledgement copy. As per rules contract notes serial number should be on a continuous basis annually. Issuance of contract notes without continuous serial number is not in conformity with SEBI Circular No. SMD/MDP/CIR/043/96 dated 05.08.96.

Similarly obtention of the signature of client along with the date on the duplicate copy of the contract note is an essential requirement without which it would not be possible to ascertain whether the contract notes were issued within 24 hours from the date of transaction. The practice of the member of not maintaining the acknowledgement copy of the contract note with clients' signature and date thereon is not in conformity with SEBI circular No. SMD/B/104/22775 dated 29.10.93.

3) Non maintenance of Client registration and Agreement forms

The show cause notice at Annexure C details the nature of deficiencies in the client database. At Annexure D, the notice furnishes a list of active clients where there is no database maintained. It was replied that the deficiencies in the client database in these cases

have since been rectified and the member has filed the copies of these documents. From the list it is noticed that in respect of following clients copies of the documents are not filed :

Name of the client Client code

1. Anita Garg CA04
2. Madhu Singla CM06
3. Mohinder Mangla CM03

Client identification is important since that makes it easier for the audit trail to identify the clients behind the transactions. Details like bank account, PAN number, introducer etc would establish the credentials of the clients and would be relevant to determine whether the member had acted in good faith and without negligence before doing business for a client. Not filing up of the client registration forms properly or non maintenance of the same is in contravention of SEBI Circular SMD/POLICY/Cir/5-97 dated 11th April, 1997.

Therefore in respect of the above cases, it is concluded that client database not maintained in contravention of SEBI Circular No. 11.04.97.

4) Off market transactions and cross deals

The show cause notice cites 6 transactions at Annexure M which are client to client ALBM transactions in settlement number 2001010 and 2001011. It also details a number of client to client transactions at Annexure N in the financial year 2000-01 where the total value of the transaction is R. 1,98,99,465.95. It was replied that there was an error in reporting client to client transactions and that they stopped doing any such transactions now. It was confirmed that these transactions had not taken place on the screen.

Cross deals are transactions wherein both the buying and selling client belong to the same broker. The broker in such cases should expose the offer to the screen based system of the exchange and should not execute it at his level. As per SEBI Circular SMDRP/POLICY/CIR-32/99 dated September 14, 1999, all negotiated deals including cross deals shall be executed only on the screens of the exchange in the price and order matching mechanism just like any other normal trade. The above decision was taken as negotiated deals including cross deals do not add to transparency and do not contribute to the price discovery. Some investors do not have benefit of the best possible price. This will militate against the basic concept of stock exchanges which are meant to bring together a large number of buyers and sellers in an open manner.

It is therefore, concluded that the member had conducted a huge number of cross deals as listed out in Annexure M and N of the show cause notice. These deals are not in conformity with the aforesaid SEBI circular SMDRP/POLICY/CIR-32/99 dated September 14, 1999.

5) Non collection of Margins

With regards to the allegation that the margins have not been collected in contravention of the SEBI circular dated 04.12.98, it was submitted that the margins were collected from the clients but were credited in the clients' account instead of the margin's account. It was further submitted that now the margins are credited to the margins account and the auditor's certificate is submitted to the exchange on quarterly basis. The member was having Rs. 6070430 with NSE as on 02.04.2001 but the margin account as on that date showed nil balance. The explanation of the member that margins were collected in the client's account and not in the margins account is not strictly in compliance with SEBI circular dated 04.12.98. Having regard to the submission that the margins were collected from the clients and credited to the clients' account though not to a separate margin's account together with the filing of auditor's certificate on quarterly basis to the exchange, the deviation may be treated as a procedural irregularity.

6) Delay in making delivery of securities to the clients

As regards the delay in delivery of securities to the client, the show cause notice dated 25.10.2002 at Annexure I cites 27 transactions wherein the delay was more than 2 days. The member pointed out that the clients themselves have authorized to retain the securities for future transactions and submitted authorization letters from the clients in this regard. However, it is observed that such authorization letter is not found in case of Global India for 2 transactions on 27.10.2000 where the delay was 7 days each.

Since it is for the benefit of the investor that the securities need to be delivered to him within 2 days of the pay out, it can be concluded that the investor by giving a letter of authorization to the broker to retain the securities for future sale has waived the right to receive the same within 2 days. However, the delay in the case of Global India for 2 transactions on 27.10.2000 where the delay was 7 days each is not satisfactorily explained since the member has not filed any authorization letter in support of his contention. It is, therefore, not established that the member had violated code of conduct B (1) under Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 and SMDRP/POLICY/CIR/11-99 dated 7th May, 1999 except in the case of Global India for the aforesaid reasons.

7) Non segregation of Clients' funds and Own funds

Annexure II to the show cause notice dated 25.10.2002 cites several instances of misuse of client a/c no. 16858 of Canara Bank. The list mentions many items of cash withdrawals. It was replied that in respect of these cash withdrawals, the money was received earlier as intercorporate deposits and deposited in this account for immediate transfer of margin money to NSE. Later on, the ICDs were repaid. Regarding the other transactions it was submitted that the same have been inadvertently carried out. Vide his letter dated 2nd Dec '2002 the member has submitted a statement as Exhibit I giving details of corresponding credit entries for the cash withdrawals from the client account which has been carefully examined. In view of the earlier corresponding credit entries in respect of certain corporate entities and specific individuals who can be identified. It can reasonably be deduced that the withdrawals may be on account of repayment of ICDs / loans. However, the explanation is not satisfactory with respect to the debits in the clients' account on account of huge and frequent cash withdrawals, purchase of shares, transaction charges paid to NSE and debits of Rs. 35,000 in the case of Siddhartha Travels. Details of transaction charges paid to NSE and payments to Siddhartha Travels from the clients' account is as under :

S. No.	Pay Date	Chq No.	Amount	Particulars
1.	03.03.00	370741	1,38,042.00	Transaction charges paid to NSE.
2.	21.03.00	370793	1,90,986.00	Transaction charges paid to NSE.
3.	29.03.00	414412	7,479.00	Transaction charges paid to NSE.
4.	20.05.00		1,15,743.00	Transaction charges paid to NSE.
5.	17.10.00		1,91,284.00	Transaction charges paid to NSE.
6.	26.05.00		35,000.00	Transaction charges paid to NSE.

It would be difficult to relate these cash debits to any particular cash receipts which could be for any reason. Further, the debits and credits are not matching. The explanation of the member in respect of cash withdrawals is not satisfactory even after factoring for the ICDs as discussed earlier.

It is therefore, established that in respect of the following transactions,, the debits of the clients' account by the member is not justified and against the Principle of segregation of clients' funds and own funds.

S. No.	Pay. Date	Chq. No.	Amount	Particulars
1.	29.06.99		3,00,000.00	Cash Withdrawn
2.	01.07.99		3,00,000.00	Cash Withdrawn
3.	02.07.99		1,50,000.00	Cash Withdrawn
4.	19.08.99	127859	4,00,000.00	Cash Withdrawn
5.	19.08.99	127860	4,00,000.00	Cash Withdrawn
6.	26.08.99	127867	3,00,000.00	Cash Withdrawn
7.	08.09.99		3,00,000.00	Cash Withdrawn
8.	20.10.99		15,00,000.00	Cash Withdrawn
9.	21.10.99		2,50,000.00	Cash Withdrawn
10.	11.11.99		1,00,000.00	Cash Withdrawn
11.	15.11.99		1,00,000.00	Cash Withdrawn
12.	26.11.99	137336	1,70,000.00	Cash Withdrawn
13.	05.01.00	178809	5,00,000.00	Cash Withdrawn
14.	24.02.00	523330	1,50,000.00	Cash Withdrawn
15.	10.05.00	430160	1,00,000.00	Cash Withdrawn
16.	06.07.00	414494	4,00,000.00	Cash Withdrawn
17.	03.08.00	377630	2,00,000.00	Cash Withdrawn
18.	08.02.01	188902	5,00,000.00	Cash Withdrawn
19.	29.03.01	188999	4,00,000.00	Cash Withdrawn
		189000		
20.	30.03.01	201713	1,40,000.00	Cash Withdrawn

The member is not in order in meeting the transaction charges to NSE and meeting the expenditure on account of Siddartha Travels from the clients account. It is also observed that the member had spent the following amount towards advance for computer on the following dates from the clients' account :

Date Cheque No. Amount

19.05.99 143914 1,00,000.00

01.06.99 143933 1,00,000.00

07.07.99 143986 1,50,000.00

17.08.99 127854 2,00,000.00

08.12.99 137355 5,00,000.00

12.01.00 178829 5,00,000.00

03.03.00 370747 3,00,000.00 (Intec Automation)

It is pertinent to note that vide his letter dated 08.09.01 at point number 7 in Annexure the member has admitted that the clients' account was used for advance for purchase of computers. This is not in order.

Further, the following amounts were debited to the clients' account with the narration of " Purchase of Shares ".

Date Cheque No. Amount

01.12.99 137342,43 4,00,000.00

28.12.99 137386.87 2,00,000.00

05.01.00 178805 2,00,000.00

18.01.00 _____ 4,00,000.00

03.02.01 178393 1,90,000.00 (Purchase of Shares of IWPL)

Do 178394 1,12,000.00 (Purchase of shares of Pantec

Devices)

In his reply, dated 08.09.01, at point 7, the member explained that the expenses on account of purchase of shares were met "because of large amounts it was not done through expenses account". This necessarily implies that these share purchases were most possibly on Proprietary account which in the normal course should be met from his expense account. In any case, it was not shown that the cheques were issued in favour of Clearing Corporation which would be the normal practice for settlement of accounts.

These expenses are not client related and therefore, cannot be said to be in conformity with the SEBI circular SMD/SED/CIR/93/23321 dated 18th November, 1993 which clearly lays down as to what are the expenses that can be met from the client's account. Debiting of clients' account for the transactions which are not client related defeat the very purpose of maintaining clients' account separately. The amounts to the credit of clients' accounts are in the nature of trust and the member is not in order in meeting other expenses which are not client related from such account. The funds in the client's account cannot be applied for any purpose other than what is permissible under SEBI Guidelines. The objective of opening and maintaining a separate account for the client's funds is to segregate and identify them separately and to prevent its misuse so that they are beyond the reach of the broker. This is in violation of SEBI Circular SMD/SED/CIR/93/23321 dated 18th November, 1993.

8) Time Stamping of orders

With regard to the allegation that record of time when the client has placed order is not maintained which is in contravention of SEBI circular 11.02.97 it was submitted that it is practically submitted that it is difficult to have the same recorded as orders are received on telephone. The contract notes reflects the time of execution and not the time of placement of order.

Time of placement of order by the client and time of placement of the order by the broker into the system are two different things. As per SEBI circular dated 11/2/1997 the broker member should maintain record of time when the client has placed the order and reflect the same in contract notes. The broker informs that it is not possible to implement the same. Non-mentioning of the time of placement of orders in the contract note is therefore not in conformity of the SEBI circular dated 11/2/1997.

9) Cash transactions with clients instead of cheque transactions

As regards the allegation that the member has entered into cash transaction with certain clients instead of cheque in violation of SEBI circular dated 18.11.93 it was submitted that only receipts were in cash and no payments were made in cash to these clients and further that the amounts were within the limits prescribed within the IT Rules.

Vide his letter dated 02.12.2002 the member furnished the details of cash receipts in the case of 10 clients. A perusal of the same reveals that they are all receipts and each transaction is less than Rs. 20000. However, as per SEBI circular dated 18.11.93 no member shall accept cash for purchase of securities or give cash for the sale of securities. All transactions should be through crossed cheques. Therefore, to the extent of these transactions in respect of 10 clients there is noncompliance with the SEBI circular cited.

3.0 SHOW-CAUSE NOTICE AND HEARING :

3.1 Pursuant to the above, a show cause notice dated 07.02.2003 was issued to the broker along with a copy of the enquiry report. The broker submitted a reply vide letter dated 14.03.2003. An opportunity of personal hearing was granted to the broker on 31.05.2003. The representatives of the broker appeared before me and reiterated their earlier submissions made in their letter dated 14.03.2003. The broker also submitted further written submissions vide their letter dated 11.06.2003. The contention of the broker that proceedings of the show cause notice based on the enquiry report are without jurisdiction is devoid of any force as post enquiry proceedings are held in compliance with the principles of natural justice and they offer an opportunity to the accused for giving his explanation. Further, the argument of the broker that they have not violated any of the provisions of regulations mentioned in the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 is also not tenable inasmuch as the broker has violated the provisions of clause A (5) and B (1) as contained in Schedule II read with regulation 7 of the SEBI (Stock Brokers and sub Brokers) Regulations, 1992 (hereinafter referred to as 'the said Regulations') I proceed to examine the said reply dated 11.06.2003 of the broker and also my findings thereof are as under.

4.0 ISSUES FOR CONSIDERATION :

4.1 ALLEGATION AND REPLY :

With regard to the charge of failure to maintain preprinted serial numbers on the contract notes, the broker submitted vide his letter dated 11.06.2003 that earlier computer generated contract notes were being used and because of software limitations, continuous running numbers were not possible. As regards the charge of failure to maintain client acknowledgment in duplicate copy of the contract note, the broker has not made any submissions in the said letter.

4.2 FINDING :

The system of continuous pre-printed serial numbers is to prevent the possible misuse of contract notes such as pre-dating of a contract. It is clear that the broker failed to maintain pre-printed serial numbers on the contract notes and

I hold the broker guilty of violating the provisions of clause A (5) of Code of Conduct as contained in Schedule II of the said Regulations read with the circular no.SMD/MDP/CIR/043/96 dated 5.8.96 issued by SEBI. As regards, the charge of failure to maintain client acknowledgment in duplicate copy of the contract note, the same is essential requirement without which it would not be possible to ascertain whether the contract notes were issued within 24 hours from the date of transaction. It is clear that the broker has violated the provisions of circular No. SMD(B)/104/22775 dated 29.10.93 issued by SEBI and I hold the broker guilty on this count.

5.0 ALLEGATION AND REPLY:

5.1 As regards the charge that the broker has failed to maintain segregation of client's account and also his own account, the broker vide letter dated 11.06.2003 submitted that there was no misuse of client's funds and in any case, they started maintaining a separate account in this regard.

5.2 FINDING :

Debiting of client's account for the transactions which are not client related defeat the very purpose of maintaining clients' account separately. The amounts to the credit of client's account are in the nature of trust and it is not in order for the member to utilize such amount from the account for meeting any other expenses which are not client related. The funds in the client's accounts cannot be applied for any purpose other than what is permissible under SEBI Guidelines. The objective of opening and maintaining a separate account for the client's funds is to segregate and identify them separately and to prevent its misuse so that they are beyond the reach of the broker. It is clear from the enquiry report that the expenses incurred by the member were not client related and the conduct of the broker was in violation of Circular No. SMD/SED/CIR/93/23321

dated 18th November, 1993 issued by SEBI.

6.0 ALLEGATION AND REPLY:

6.1 As regards failure to maintain time stamping of orders, the broker submitted vide letter dated 11.06.2003 that it is not possible to record the time in the sauda book at which point of time the order was received and they also submitted that they were taking steps for ensuring compliance with the circular dated 11.02.1997 issued by SEBI.

6.2 FINDING :

SEBI's circular dated 11.02.97 requires the broker to maintain record of time when the client has placed the order and reflect the same in contract notes alongwith time of execution of order and non compliance of the same is in violation of the provisions of clause B (1) of Code of Conduct as contained in Schedule II of the said regulations read with circular no.SMD/POLICY/IECG/1-97 dated 11.2.97 issued by SEBI. As per the Code of Conduct, a broker is required to execute the order at the best available market price. The details in respect of placing of order and the time as to when the order was placed is very important as the client can know whether the broker has executed the order at the best price and also to know whether he is charging the correct price vis-à-vis comparing the same with market price at the time of placing or execution of the order.

7. ALLEGATION AND REPLY :

1. As regards the failure to maintain client database and also the deficiencies as pointed out by the enquiry officer, the broker vide letter dated 11.06.2003 submitted that they had always entered into agreements with the clients.

2. FINDING :

It is clear from the enquiry report that there are deficiencies in maintenance of client database as mentioned in detail by the enquiry officer. Client identification is important since it is aimed at identifying the clients behind transactions. This requirement helps in establishing the credentials of the clients and also make the broker to act diligently while doing business for his clients. Failure to fill up client registration forms properly or non maintenance of the same is in contravention of the provisions of clause A (5) of Code of Conduct as contained in Schedule II of the SEBI (Stock Brokers and sub Brokers) Regulations, 1992 (hereinafter referred to as 'the said regulations') read with circular no.SMD/POLICY/CIR/5-97 dated 11.4.97 issued by SEBI. Therefore, I hold the broker guilty on this count and I agree with the findings of the Enquiry Officer in this regard.

8.0 ALLEGATION AND REPLY :

8.1 As regards, the failure to report off the floor transactions to the stock exchanges, the broker submitted vide letter dated 11.06.2003 that the circular dated 18.09.98 provides that off market transactions upto value of Rs. 25 lacs or number of shares upto 10,000 is permitted. The broker further submitted that the same limits are prescribed in case of cross deals also and since the off market transactions and cross deals which have been referred to in the inspection report and the enquiry report are in conformity with the circular dated 18.09.98 and the charge ought to be dropped.

8.2 FINDING :

As per SEBI Circular, SMDRP/Policy/CIR-32/99 dated 14/09/99 all negotiated deals including cross deals shall not be permitted in the manner prescribed in circulars referred therein and all such deals shall be executed only on the screen of the exchange in the price and order matching mechanism of the exchanges just like any other normal trade. It was explained in the said circular that the above decision was taken as negotiated deals to avoid transparency requirement, do not contribute to price discovery and some investors do not have benefit of the best possible price. Further, negotiated deals militate against basic concept of the stock exchanges which are meant to bring together a large number of buyers and sellers in an open manner. As per circular dated 18.09.98, any transaction which has

either transaction value of not less than Rs. 25 lacs or volume of not less than 10,000 shares and which has been executed at a price not formed through the stock exchange price and order matching mechanism would be termed as a negotiated deal.

It is clear from the above circular that there is no complete prohibition against negotiated deals including cross deals. All it requires is that they shall be executed on the screen of the stock exchanges in the price and order mechanism of the exchanges.

The show cause notice cites 6 transactions at Annexure M which are client to client ALBM transactions in settlement number 2001010 and 2001011. It also details a number of client to client transactions at Annexure N in the financial year 2000-01 where the total value of the transaction is Rs. 1,98,99,465.95. It was replied that there was an error in reporting client to client transactions and that they stopped doing any such transactions now. It was confirmed that these transactions had not taken place on the screen.

Cross deals are transactions wherein both the buying and selling client belong to the same broker. The broker in such cases should expose the offer to the screen based system of the exchange and should not execute it at his level. As per SEBI Circular SMDRP/POLICY/CIR-32/99 dated September 14, 1999, all negotiated deals including cross deals shall be executed only on the screens of the exchange in the price and order matching mechanism just like any other normal trade. The above decision was taken as negotiated deals including cross deals do not add to transparency and do not contribute to the price discovery. Some investors do not have benefit of the best possible price. This will militate against the basic concept of stock exchanges which are meant to bring together a large number of buyers and sellers in an open manner.

It is therefore, concluded that the member had conducted a huge number of cross deals as listed out in Annexure M and N of the show cause notice. These deals are not in conformity with the aforesaid SEBI circular SMDRP/POLICY/CIR-32/99 dated September 14, 1999.

It is not in order for the member to execute large number of transactions outside the exchange system. In view of the above, I do not see any reason to differ with the findings of the enquiry officer and I hold the broker guilty of violating the provisions of circular No. SMDRP/Policy/CIR-32/99 dated 14/09/1999 issued by SEBI.

9.0 ALLEGATION AND REPLY :

As regards the failure to collect margins, the broker vide letter dated 11.06.2003 submitted that he has no specific reply except that no grievance survives in respect of this charge.

1. FINDING :

I do not see any reason to differ with the findings of the enquiry officer in this regard and hold the broker guilty of violating the provisions of circular dated 04.12.98.

10.0 ALLEGATION AND REPLY :

As regards the charge of committing delay in making delivery of securities to the client namely Global India for the two transactions for which due dates of delivery were 13.10.2000 and 27.10.2000 whereas the actual dates of delivery were 03.11.2000 and 03.11.2000 which means that there was a delay of 21 days and 7 days respectively. The broker vide reply dated 11.06.2003 submitted that they were furnishing letters from the clients giving consent for delayed payments. However, the broker has failed to enclose such letters.

10.1 FINDING :

It is clear that there was a delay on the part of the broker in making delivery of securities to the client namely Global India for the two transactions for which due dates of delivery were 13.10.2000 and 27.10.2000 whereas the actual dates of delivery were 03.11.2000 and 03.11.2000 which means that there was a delay of 21 days and 7 days respectively. Therefore, I hold the broker guilty of violating the provisions of clause B (1) of Code of Conduct as specified in Schedule II read with regulation 7 of the said regulations also read with the circular No. SMD/SED/CIR/93/23321 dated 18.11.93.

11.0 ALLEGATION AND REPLY:

With regard to the charge of cash transactions with clients instead of cheque transactions the broker vide letter dated 11.06.2003 submitted that in some cases the cash has been received in view of urgency and obviously because from unknown or from a outstation client, outstation cheques could not be received to put through the deals as it would have entailed uncertainty whether the payment would be realized or not.

11.1 FINDING :

As per circular No. SMD/SED/CIR/93/23321 dated 18.11.93, no broker shall accept cash or for purchase of securities or give cash for sale of securities and all transactions should be through cross cheques. In respect of 10 clients mentioned in detail in the inspection report, the broker is guilty of violating the provisions of the said circular dated 18.11.93 read with clause A (5) of Code of Conduct as specified in Schedule II also read with regulation 7 of the said Regulations.

12.0 CONCLUSIONS :

1. In view of the above findings, I am fully convinced that the broker had committed irregularities pertaining to failure to maintain record of time of placing and executing the order, failure to maintain client database, failure to ensure

continuous preprinted serial numbers on the issued contract notes, failure to report off the floor transactions to the stock exchange, failure to maintain segregation of client's accounts, delay in making delivery of securities to the clients, failure to collect margins and indulging in cash transactions with clients instead of cheque transactions.

Regulation 7 of the said Regulations provides that the stock broker holding the certificate shall at all times abide by the Code of Conduct as specified in Schedule II. Further, Clause A (5) of Schedule II provides that a stock broker shall abide by all the provisions of the Act and the Rules, Regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him. In view of the findings as stated in paras 4.0 to 12.1, I conclude that the said broker is guilty of having violated,

- a. the provisions of clauses A(5) and B(1) of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992,
- b. the condition of registration specified in Rule 4(b) of the SEBI (Stock Brokers and Sub-brokers) Rules, 1992,
- c. SEBI directives contained in the circulars as found hereinabove.

In view of the above, the said broker is liable for action under regulation 13(1)(b) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.

12.2 Under section 11 of the SEBI Act, SEBI can take measures to protect the interests of investors and to regulate the securities market inter alia by registering and regulating the working of stock brokers. The directives contained in the SEBI circulars are the measures for regulating the working of the stock brokers. Further, the Code of Conduct specified in Schedule II of the said Regulations also provides for the minimum standards for the working of the stock brokers. If the regulatory requirements are violated by the stock brokers without attracting any action, the measures taken by SEBI for regulation of the stock brokers would be rendered nugatory and the regulatory function would be jeopardized. It is to be noted that indulgence of the said broker in the transactions which are prohibited can not be allowed especially when such transactions are likely to have a detrimental effect on regulation of the securities market. Further, every stock broker is under obligation to comply with the provisions of the Act and the Rules and Regulations made thereunder as also the circulars and guidelines issued by the Board from time to time. It is also imperative that all the members of every Stock Exchange shall adhere to the bye-laws of the Exchange.

13.0 ORDER :

13.1 I find that the said broker has committed several violations as observed above and has not taken due care and diligence in observance and compliance of the statutory requirement in conduct of its business as a stock broker. Looking into the violations committed by the said broker, I am satisfied that it is necessary to secure the proper management of the stock broker and also in the interest of the securities market that a penalty of suspension of certificate of registration for a period of four months as recommended by the enquiry officer is reasonable. Therefore, in exercise of the powers conferred upon me by virtue of sub section (3) of section 4 of the Securities and Exchange Board of India Act, 1992 read with regulations 13 (4) and 13 (6) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 I hereby order that the certificate of registration no. INB230877337 of M/s. Intec Share and Stock Brokers Ltd. a member of the National Stock Exchange of India Ltd. be suspended for a period of four months.

This order shall come into force on the expiry of three weeks from the date of this order.

Place: Mumbai

Date : 25.08.2003

G. N. BAJPAI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA