

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 PARKLIGHT SECURITIES LIMITED.

1.0 BACKGROUND OF THE CASE :

- 1.1 Parklight Securities Limited (hereinafter referred to as the broker) is a member of Ahmedabad Stock Exchange (hereinafter referred to as ASE) and registered with Securities and Exchange Board of India (hereinafter referred to as SEBI) with registration no. INB021033259.
- 1.2 An inspection of books of accounts, documents and other records of the broker was conducted on 16th January 2001 for the period 2000-01. A copy of the inspection report was forwarded to the broker by SEBI vide letter dated 17.4.2001 and time was extended to him till 14.8.2001 within which to offer his comments on the same, at his request. However, the broker did not submit any comments. In view of the serious nature of some of the violations, an enquiry officer was appointed vide Order dated 2.8.2002 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 procedure laid down under SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 (hereinafter referred to as "the said regulations") submitted a report dated 31.01.2003. The enquiry officer has concluded that the broker had committed irregularities pertaining to failure to issue contract notes bearing pre-printed serial numbers, failure to mention order execution time on contract notes, non-obtaining of date of acknowledgement on duplicate copy of the contract notes, executing off the floor transactions, non-segregation of client funds and own funds and non-maintenance of client database. The enquiry officer recommended that the registration of the broker be suspended for a period of six months.

3.0 SHOW-CAUSE NOTICE AND HEARING :

- 3.1 Pursuant to the above, a show cause notice dated 03.03.2003 was issued to the broker along with a copy of the enquiry report. The broker did not submit any detailed reply to the notice but requested for an opportunity for personal hearing vide his letter dated 19.4.2003. Accordingly, an opportunity of personal hearing was granted to the broker on 15.5.2003. The representatives of the broker appeared before me and submitted that a lenient view may be taken since they are now regularly reporting off market transactions and maintaining client database.

4.0 Consideration of the issues

- 4.1 I have taken into consideration the enquiry report and the submissions made by the said broker in his reply and at the personal hearing. My findings are as given below.

4.2 *Contract notes not bearing pre-printed serial numbers :*

The Enquiry Officer (E.O., for short) has found that the contract notes issued by the said broker during the inspection period did not contain pre-printed serial numbers, which has not been disputed by the broker. The purpose of requiring such pre-printing of serial numbers in contract notes is to prevent misuse of the same by back dating of contract notes. I therefore, hold him guilty of violation of SEBI circular No. SMD/MDP/CIR/43/96 dated 5.8.1996.

4.3 *Order execution time not mentioned in the contract notes :*

The E.O has found that the said broker did not mention the order execution time in the contract notes issued by him, which has not been disputed by the broker. A member is required to execute an order at the best available market price under clause B(1) of the Code of Conduct for Stock Brokers, given in the Schedule II of the said Regulations. Mention of order execution time enables an investor to ascertain the time difference between the placing of order and execution of order and also to determine whether the member executed the order at the best available market price. I therefore hold him guilty of violation of SEBI circular No. SMD/Policy/IECG/1-97 dated 11.2.1997.

4.4 *Client acknowledgement not obtained :*

The E.O. has found that some clients had not mentioned the date of acknowledgment while signing the acknowledgement copy of contract notes, which has not been disputed by the said broker. Therefore, I hold him guilty of violation of SEBI Circular No. SMD-1/23341 dated 18.11.1993. Moreover, since he has not maintained the duplicate copies of the contract notes in the manner required I hold him also guilty of violation of rule 15(2)(b) of the Securities Contracts (Regulation) Rules, 1957 and regulation 17(1)(i) of the said Regulations.

4.5 *Off the floor transactions :*

The Enquiry Officer has found that the broker has executed 33 transactions in the nature of off market transactions. Such off market deals tamper with the price discovery mechanism and militates against the concept of stock exchange which is meant to bring large number of investors in trading floor / system in a transparent manner. The broker has not come up with any tangible explanation for the same. I therefore hold him guilty of violation of SEBI Circular No. SMDRP/Policy/Cir-32/99 dated 14.9.1999. By indulging in off market transactions, he has indulged in acts which lead to interference with the fair and smooth functioning of the market. I therefore hold him guilty of violation of clause A(4) of the Code of Conduct for Stock Brokers given in Schedule II of the said regulations read with regulation 7 of the said regulations.

4.6 *Non-maintenance of client agreement:*

It is not disputed that the said broker was not maintaining client database except in respect of 19 clients, even though he has admitted that he had around 450 clients. Non-maintenance of client database is a violation of SEBI Circulars No. SMD-1/23341 dated 18.11.1993, SMD/Policy/IECG/1-97 dated 11.2.1997 and SMD/POLICY/CIR-5/97 dated 11.4.1997. These requirements are specified to keep tab of trading activities of the client to monitor compliance with the SEBI Regulations relating to Unfair and Fraudulent Trade Practices, Prohibition of Insider Trading and Substantial acquisition of shares and Takeovers, and therefore the violations thereof cannot be considered as merely technical. I therefore hold the said broker guilty of violation of the above SEBI Circulars.

4.7 *Non-segregation of own funds and client funds:*

I find that the transactions on personal account with H. Nyalchand Financial Services Ltd. from the client account in Classic Cooperative Bank A/c No.752 have not been satisfactorily explained. It is also clear that the broker has subscribed to the IPO of Sankhya from another client account – that with the Ahmedabad Dist. Co-operative Bank Ltd. A/c No.29446. The E.O. has found that funds in yet another client account – that with Centurion Bank have been utilized to subscribe to the public issues of M/s Rama Multitech Ltd. and M/s Geometric Software. This has also not been satisfactorily by the broker.

It is seen that the client accounts have been used for own purposes as mentioned above, in contravention of the mandatory norms given in SEBI circular No. SMD/SED/CIR/93/23321 dated 18.11.1993 and byelaws of the exchange in respect of client broker relationship. In view of the utmost importance of measures to prevent misuse of client's funds, the submissions of the said broker are unacceptable. I therefore, hold him guilty of violation of the above SEBI circular and of rule 4(b) of the SEBI (Stock Brokers and Sub-brokers) Rules, 1992. It has to be noted that the very fact that payments on the own account have been made from clients accounts constitutes violation irrespective of whether the clients funds were used for the purpose or not.

5.0 **CONCLUSIONS :**

5.1 In view of the above, I do not see any reason to differ with the findings of the enquiry officer. I am fully convinced that the broker has committed irregularities as found above.

5.2 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 given in paras 4.2 to 4.9, I conclude that the said broker is guilty of having violated,

- (a) the provisions of clauses A(4) and A(5) 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) the provision of rule 15(2)(b) of the SEBI (Stock Brokers and Sub-brokers) Rules, 1992,
- (d) the provision of regulation 17(1)(i) of the said regulations and,
- (e) SEBI directives contained in the circulars as found hereinabove.

In view of the same, the said broker is liable for action under regulation 13(1)(b) of the SEBI Enquiry Proceedings Regulations.

5.3 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.

6.0 **ORDER :**

6.1 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 six 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. INB 021033259 of M/s. Parklight Securities Ltd., a member of the Ahmedabad Stock Exchange be suspended for a period of six months.

This order shall come into force with effect from three weeks from the date of this order.

Place : Mumbai

Date : 24.11.2003

G.N. BAJPAI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA