

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.

IN THE MATTER OF M/S MATHRAN SECURITIES LTD., MEMBER, NATIONAL STOCK EXCHANGE ASSOCIATION LTD.

BACKGROUND

1. Mathran Securities Ltd. (hereinafter referred to as 'Mathran') is a member of the National Stock Exchange Association Ltd. (hereinafter referred to as 'NSE') and is registered with Securities and Exchange Board of India (hereinafter referred to as 'SEBI') vide registration no. INB230707934. Mathran is also a Depository Participant (DP) of NSDL and CDSL having SEBI registration numbers IN-DP-NSDL-73-98 & IN-DP-CDSL-68-2000 respectively. Further, Mathran is also a member of Calcutta Stock Exchange (CSE).
2. SEBI had conducted an inspection of Mathran in January, 2001, wherein inter alia the following irregularities were alleged to have been committed by Mathran :
 - i. Mathran was dealing with un-registered sub-broker.
 - ii. Order book was not being maintained.
 - iii. Client registration forms not maintained properly.
 - iv. Upfront margins were not collected from the clients.

3. In view of the prima facie violations observed during the inspection, vide an order dated January 29, 2003, an Enquiry Officer (hereinafter referred to as 'EO') was appointed under Regulation 5 (1) of SEBI (Procedure for Holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as "the said Regulations") to enquire into possible violations, inter alia, of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 by Mathran.

ENQUIRY REPORT AND RECOMMENDATION

4. The EO, after conducting the enquiry as per the procedure laid down in the said Regulations, submitted a report dated June 29, 2004.
5. The EO was of the opinion that although there were some irregularities committed by Mathran, these irregularities were technical in nature, exhibiting no deliberate intention on the part of Mathran. Further, EO found that there were no investor grievances pending against Mathran and that they had given assurance to be more cautious in dealing with the clients and agreed to maintain high standards of integrity, promptitude and fairness in the conduct of all their business and to act with due skill, care and diligence and comply with all the statutory requirements of the provisions of the Securities and Exchange Board of India Act, 1992 and the Rules and Regulations made thereunder.
6. In the light of the above, the EO recommended a penalty of "**Censure** " to be imposed on Mathran.

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SHOW-CAUSE NOTICE AND HEARING

7. A Show Cause Notice dated July 13, 2004 was issued to Mathran, along with a copy of the enquiry report, wherein he was called upon to show cause in terms of Regulation 13(2) of the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 as to why appropriate penalty should not be imposed against them.
8. Mathran submitted their reply vide letter dated July 28, 2004, with the submission that they did not have any explanation to offer and also assured that they would be more cautious in future while dealing with the clients as well as carrying broking business.

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CONSIDERATION OF ISSUES AND FINDINGS

9. I have considered the facts of the case, the findings of the Enquiry Officer, the reply of the Broker to the show cause notice and other material on record.
10. As regards the allegation that Mathran had not maintained the order book properly, I have noted the submissions of Mathran that all the details which are required to be maintained in the order book were available on the NEAT System, a system introduced by NSE, in soft copy and whenever required, the same can be retrieved from the system and hard copy can be maintained. Mathran had also assured that in future they will maintain the order book in hard copy, as mandated by the regulations.
11. As regards improper maintenance of client registration forms, Mathran had submitted that some lapses had occurred on their part in filling up certain columns of the Client-Registration forms, but the same were attributable purely to clerical mistakes. I

have observed that some columns of the client registration forms were not filled up, however, the photocopies of documents relevant to the said columns were attached to the registration forms, indicating that the information were merely not captured on the registration form. Hence, I am inclined to accept Mathran's plea that the columns have been left blank due to clerical mistake, in view of the fact that the requisite information was available in the photocopies of the relevant documents.

12. As regards the allegation of not collecting margin from the clients, I find that with respect to their largest client, KLG Securities Ltd, with whom they had the maximum number of transactions, a margin of Rs 11.25 lacs was maintained at all times, in addition to the standing instruction from the client regarding keeping withholding pay-out (of funds and securities) as margin, as and when required. I find that the client had authorized Mathran to retain the credit balances, if any, in its account from time to time, in each of the settlement obligations. From the letter of the said client, I find that Mathran has been authorized to take appropriate action on behalf of the client from time to time, thereby enabling Mathran to avoid margin/settlement default. I also find that similar standing instructions were given by Mathran's other clients also.
13. As to the allegation that Mathran had dealt with unregistered Sub- Broker, namely M/s KLG Securities Ltd., member, Delhi Stock Exchange, Mathran submitted that M/s KLG Securities Ltd. was their client and that they had a Client-broker relationship and that the necessary Client-Member agreement and Client – Registration form were executed in that respect. Further, they had a declaration from KLG, confirming that KLG securities Ltd. had not acted as Sub-Broker at any time. I find that no case has been made out regarding the said client having acted as a sub-broker. Hence, I propose to grant the benefit of doubt to Mathran in this regard.
14. From the aforesaid, I conclude that though there have been some irregularities and lapses on the part of Mathran, these irregularities do not appear to exhibit any mala fide intentions. I further note that these irregularities do not appear to have resulted in any serious consequences and were also rectified by Mathran without further delay. I also find that there have not been any client complaints/investor grievances against Mathran. Hence, I do not have any hesitation in agreeing with the recommendations of the Enquiry Officer.

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ORDER

15. Taking into consideration the totality of the facts and also the assurance given by Mathran that they will be more cautious in dealing with their clients and will henceforth maintain high standards of integrity, promptitude and fairness in the conduct of the business and will act with due skill, care and diligence in the conduct of all their business in compliance with the statutory requirements of the provisions of SEBI Act, 1992 and the Rules and Regulations made thereunder and by the Stock Exchanges from time to time, I, in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act, 1992, read with Regulation 13(4) of SEBI (Procedure for holding Enquiry by Enquiry Officer and Imposing penalty) Regulations, 2002, hereby impose a penalty of "Censure" on Mathran Securities Ltd., Member, NSE, bearing SEBI Registration No. INB230707934.

Place: Mumbai

Date: October 8th , 2004

A K Batra

Whole Time Member

Securities and Exchange Board of India