

**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 SYKES & RAY EQUITIES (I) LTD., MEMBER, THE NATIONAL STOCK EXCHANGE, SEBI REGISTRATION NO. INB230727738

1.0 BACKGROUND

- 1.1 Sykes & Rays Equities (I) Ltd. (hereinafter referred to as "the broker") is a member of the National Stock Exchange ("NSE") registered with SEBI as a stock broker under section 12 of SEBI Act, 1992 with SEBI Registration No. INB230727738.
- 1.2 An inspection of the books of accounts, documents and other records maintained by Sykes & Rays Equities (I) Ltd. for the period April 01, 2000 to August 31, 2002 was carried out by M. M. Nissim and Co., Chartered Accountants appointed by SEBI in terms of letter dated SMD/DBA-1/Pre-Insp./AK/14877/2002 dated August 6, 2002. Certain irregularities / contraventions of SEBI Regulations were observed during the said inspection.

2.0 ENQUIRY PROCEEDINGS

- 2.1 In view of the above, an Enquiry Officer (EO) was appointed vide SEBI Order dated March 08, 2004 under Regulation 5 of SEBI (Procedure for holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as 'said regulations') to enquire into the alleged contraventions observed during the inspection of books of accounts of the broker. The EO after conducting the enquiry in terms of the said regulations submitted his report on 28.10.04 and recommended a minor penalty of warning against the broker.

3.0 SHOW CAUSE NOTICE AND THE BROKER'S SUBMISSIONS

- 3.1 A copy of the Enquiry Report was sent to the broker along with a show cause notice dated 03.11.04, in terms of regulation 13(2) of the said Regulations advising it to show cause as to why the penalty as recommended by the Enquiry Officer should not be imposed.
- 3.2 The broker replied vide letter dated 22.11.04 and submitted as under:

That as member of BSE & NSE, they have always acted honestly and truthfully, being conscious of their duties and responsibilities and have abided by all the rules, bye-laws and regulations at all material times.

The broker further submitted that the Enquiry Officer has not found them guilty of the alleged violations of SEBI Rules & Regulations, as all the alleged violations were mere technical or procedural. There has been no allegation in the Enquiry Report or in the Notice of any malafides on their part. All the alleged violations were found to be technical or procedural by the Enquiry Officer which were caused inadvertently in the course of conduct of business. On coming to their knowledge, they have immediately taken ameliorative actions to rectify such errors.

The broker further submitted that all the findings in the Inspection Report and the Enquiry Report in fact confirm that they have been substantially compliant of all the applicable regulations, bye laws and directives of SEBI and National Stock Exchange of India, except in very exceptional and technical matters. There are no existing irregularities or breaches of any applicable provisions and they are in compliance with the applicable Regulations. They in all sincerity are committed to be in compliance with the applicable rules and regulations.

The broker further submitted that there was no gain or unfair advantage obtained by them. There was no loss caused to an investor or group of investors. There has been no instance of any alleged violations of the Regulations by them in the past. There has been no grievance from any of their clients. There are no arbitral proceedings pending against them.

4.0 CONSIDERATION OF ISSUES

- 4.1 I have carefully considered the facts and circumstances of the case. I have also considered the Enquiry Report and the submissions of the broker. I find that adequate opportunity has been given to the broker in accordance with principles of natural justice.
- 4.2 The charges that have been established against the broker are as under:

- 1) **There was delay in delivery of contract notes at the member broker's end in violation of SEBI Circular No. SMD/MDP/Cir/043/96 dated. Aug 5, 1996**

The broker, during the course of Enquiry, submitted that he deals mainly through a network of sub brokers, most of whom have installed VSAT terminals to trade online and download the daily trades and obligations at the end of the day. In addition to this, the broker claimed that he faxes/ emails their daily trades and obligations to each sub broker. Further, the broker stated that he had received standing instructions from the sub brokers that contract notes need not be sent on daily basis, although they are printed and issued within 24 hours.

Considering the fact that the broker conducts his business through a network of sub-brokers and the fact that there have been no complaints lodged against the member broker about this issue by any investor, I agree with the finding of the Enquiry Officer.

- 2) **The names of the authorized signatories were mentioned although its duly authorized representative had signed the contract notes, which is in violation of Clause B(2) of Code of Conduct prescribed under Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.**

The member broker, during the course of the Enquiry submitted that he has incorporated the names of the directors in the new contract notes. The member broker submitted a photocopy of the contract note with the necessary changes incorporated in.

In agreement with the findings of the Enquiry Officer, I conclude that the above relate to a procedural lapse, which as per the submissions made by the broker and backed by documents submitted by him, have been rectified.

- 3) **Dealing with unregistered Sub-Brokers in violation of SMD/POLICY/Circular/ 3-97 dated March 31, 1997 and SUB-BROK/CIR/02/2001 January 14, 2001.**

The broker submitted that the 2 instances occurred due to technical clarifications sought by NSE, due to which delays occurred in getting the intermediaries registered. For the same, NSE has already imposed fines of Rs 40,000/- on November 26, 2002. The broker further stated that he has stopped dealing with M/s Colaco and Aranha on NSE. Further, the broker stated that both the sub-brokers have been registered.

In light of the above, I agree with the findings of the Enquiry Officer and conclude that no further punitive action be taken against the broker, since the broker has already been fined for the above misdemeanor and remedial action has been taken.

- 4) **Violations with respect to Unique Client Code in violation of SEBI Circular No. SMDRP/POLICY/CIR-39/2001 dt. July 18, 2001, in the following manner:**

- a. Member broker failed to obtain declaration from clients that PAN numbers were not available, in case of 20 clients. The broker has ensured collection of declarations under Form 60, from 19 out of the 20 clients. For 1 client, the PAN number has already been collected.
- b. The Unique Client Code was not used while placing the order in the trading system. The broker during the course of Enquiry stated that he mainly operates through sub brokers using VSATs. The sub brokers service ultimate clients to whom they allot client codes. He further claimed that to date, on a quarterly basis, he provides details of such clients codes allotted by the sub broker, to the exchanges (through the exchange's extranet system), along with details of the sub broker code allotted by the broker. The same ultimate client codes are also reflected in TXT file of the exchange.

I agree with the findings of the Enquiry Officer that in the violations stated in 4) a) is of a procedural nature and has been rectified by the member broker, as submitted by him. In case of the second violation 4) b), the inspection is for the period April 2000 to September 2002, while the said circular was issued on July 18, 2001. The circular is also applicable to clients having order value of Rupees One Lakh or more. The inspection report does not state the size of the value of the orders for which the codes are not entered into the system. This being so, the violation cannot be proved beyond doubt.

- 4.3 I observe that in the submissions which were made by the broker vide his reply dated 22.11.04, the broker has admitted that there were lapses on his part which were exceptional or technical in nature. Therefore I agree with the findings of the Enquiry Officer since there is no additional material to come to a different conclusion.

5.0 **ORDER**

- 5.1 Therefore, in light of submissions made by the broker and in the interest of the investors and safety and security of the capital market, in exercise of powers conferred upon me in terms of Section 19 of the SEBI Act read with Regulation 13(4) of the said Regulations, I hereby warn Sykes & Rays Equities (I) Ltd., member, The National Stock Exchange ("NSE") having SEBI Registration No. INB230727738, and direct him to be more cautious in future in its dealings with securities and to adhere to the provisions of SEBI Act, 1992 and the Rules and Regulations made thereunder. Any future lapse on its part in complying with the said provisions would invite stringent action.
- 5.2 This Order shall come into force with immediate effect.

**PLACE: MUMBAI
27.12.2005**

**MADHUKAR
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**