

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 MASTER CAPITAL SERVICES LTD, MEMBER, NATIONAL STOCK EXCHANGE SEBI REGISTRATION NO. INB230643634.

1.0 BACKGROUND

- 1.1 M/s. Master Capital Services Ltd. (hereinafter referred to as "the broker") is a member of National Stock Exchange, ("NSE") registered with SEBI as a stock broker under section 12 of SEBI Act, 1992 with SEBI Registration No. INB230643634.
- 1.2 Inspection of the books of accounts, documents and other records of the broker was carried out by SEBI for the period April 1, 2001 to December 31, 2003 and certain irregularities were observed.

2.0 ENQUIRY PROCEEDINGS

- 2.1 In view of the above, an Enquiry Officer (EO) was appointed vide SEBI Order dated March 4, 2004 under Regulation 5(1) of SEBI (Procedure for Holding Enquiry) Regulations, 2002 (hereinafter referred to as the "said Regulations") to inquire into the irregularities 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 10.09.04 and recommended that a warning be issued to the broker.
- 2.2 A copy of the Enquiry Report was sent to the broker on 15.09.04, in terms of Regulation 13(2) of the said Regulations, advising him to show cause as to why appropriate penalty including the penalty recommended by the Enquiry Officer should not be imposed.
- 2.3 The broker replied vide letter dated 04.10.04 and stated that they were of the belief that their Routine Listing was not an advertisement. Secondly, as soon as the Inspection team raised the point, they have sent copy to NSE to prove their bonafide that they have no intention to hide anything from the National Stock Exchange. Thirdly, the amount spent on the alleged advertisement was only Rs.2100, too meagre to justify any intention on their part to violate the law. The broker requested that no warning be issued as it would have adverse impact on their business, more particularly the institutional clients.

3.0 CONSIDERATION OF ISSUES

- 3.1 I have carefully considered the findings of inspection, Enquiry and the submissions made by the broker and note significant points as under;

a) Whether the broker has indulged in off-market trades

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It has been alleged that the broker had indulged in certain off market trades which were observed in ALBM segment where, as informed, the member had done the trades with the consent of the clients at the prevailing market prices.

The broker submitted that the trades mentioned were not off market trades but merely entries done at the request of the clients – one who desired to rollover the long position to the next settlement and the other willing to finance the rollover of long position. As the clients were not in a position to take delivery of the shares and the broker could not do any fund based activity, they had other clients who were willing to extend finance. On receiving their consent, the entries were recorded and got reflected in the books of MCSL. Since these entries were of memorandum nature only and done purely with a view to facilitate the requirement and supply of finance, no correspondent delivery of shares has been given/taken by any of the clients. The entries were done at the closing market rates. The confirmatory consents of clients were taken and copies of these consents have already been submitted. The broker has further relied on the order of The Hon'ble Member SEBI in the matter of M/s. JM Morgan Stanley Retail Services Pvt. Ltd. dated 2.6.04 wherein he has held that "Finally and most relevantly, the issues relating to the vyaj badla are entirely academic in as much as vyaj badla was abolished as far back as in the year 2001." EO finds the explanation of the broker as satisfactory.

b) Whether there were discrepancies in the client code

It was alleged that the client code as per the CSV file did not match with client code as per the Sauda Book. The broker replied that Global Securities was their registered sub-broker and the codes appearing in their CSV files were the codes of their clients and the code appearing in sauda books i.e.G-26 was the code of the sub-broker in their back office. The broker stated that Pawan Capital Services Ltd and Subal Securities (P) Ltd were their corporate clients and they traded on their own account. They have been allotted code Nos.P10 and S149 respectively and they have a common Director who placed orders on their behalf. In the instant case, the dealer while entering the orders in the system had wrongly put the code of one of these clients though it was intended for the other client. As the code once entered could not be changed, the broker had obtained request letters from both the affected clients and changed the code in their back office.

As the broker has accepted the mistake and also filed copies of contract notes for the transactions duly acknowledged by the clients to whom these transactions have finally been billed, EO finds that the wrong entry was done due to the carelessness of the dealer. Since there is no complaint in this regard, a lenient view be taken.

c) Whether there were irregularities in the issuance of contract notes

It was alleged that the contract notes issued did not bear pre-printed serial number. However, the contract notes issued from April 2002 are stamped sequentially with serial numbers. Contract notes are issued within 24 hours of the trade execution and the same are sent to the clients through courier but if clients collect the contract notes personally, acknowledgement is generally not obtained. Proof of delivery was not produced. In some cases, acknowledgements on the contract notes in respect of different groups of clients seemed to be of the same person.

The broker replied that prior to 1.4.02, the numbers were generated by software. The broker stated that the observation of the inspection team that the acknowledgement on the contract notes seemed to be of the same person is incorrect. Due to office space problem, the courier receipts could not be located on the day of the inspection but is now available for verification. EO finds the broker's explanation satisfactory.

d) Whether there were irregularities in trade/transfer of securities

It was alleged that on verification of trades and transfer of securities on pay-in/pay-out of M/s. Rank Investments, it appears that the trade relates to clients of M/s. Rank Investments. Similarly on verification of transfer of securities of Mrs. Madhuri Hindocha and M/s. Vita Securities, it was observed that the securities were transferred to few Demat Accounts

other than those of the said clients. The broker replied that all the three entities mentioned above were their clients and they had obtained written consents for transferring the shares to other accounts. EO finds that the broker's explanation satisfactory.

e) Whether the broker had issued advertisements

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It was alleged that the broker had issued three advertisements. The broker replied that two advertisements were for recruitment and the third was for listing in the yellow pages. The EO found that listing in the yellow pages is in the nature of advertisement as it has detailed in length the nature of its activities. EO finds that though the broker had intimated NSE after publishing the advertisement, broker had violated SEBI Circular No.SMDRP/Policy/Cir-49/2001 dated October 22, 2001 which requires prior approval of the exchange.

4.0 The Enquiry Officer has recommended a minor penalty of warning. I do not find any fresh grounds to take a different view.

5.0 ORDER

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5.1 Now, therefore, in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act, 1992 read with Regulation 13(4) of the said Regulations, I hereby warn M/s. Master Capital Services Ltd., member, NSE bearing SEBI Registration No. INB230643634 and direct the broker 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 the broker's part in complying with the said provisions would invite stringent action.

5.2 This order shall come into force with immediate effect.

PLACE: MUMBAI

DATE : 6/1/06

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA