

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. SVV SHARE & STOCK BROKERS PVT. LTD., MEMBER, THE STOCK EXCHANGE, MUMBAI, SEBI REGISTRATION NO. INB010991632.

1.0 BACKGROUND

- 1.1 M/s. SVV Share and Stock Brokers Pvt. Ltd., (hereinafter referred to as "the broker") is a member of The Stock Exchange, Mumbai ("BSE") registered with SEBI as a stock broker under section 12 of SEBI Act, 1992 with SEBI Registration No. INB010991632.
- 1.2 Inspection of the books of accounts, documents and other records of the broker was carried out by SEBI for the period 2001-02 and 2002-03. During the inspection, certain irregularities found to have been committed by the broker were observed.

2.0 ENQUIRY PROCEEDINGS

- 2.1 In view of the above, an Enquiry Officer (EO) was appointed vide SEBI Order dated January 7, 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 29.12.04 and recommended that a warning be issued to the broker.
- 2.2 A copy of the Enquiry Report was sent to the broker on 18.01.05, 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 31.01.05 and stated that it will strictly follow the Rules, Regulations and Bye-laws of The Stock Exchange as well as the provisions of the SEBI Act, Rules and Regulations framed thereunder including the Circulars dated 31st March, 1997 and 11th April 1997 for its broking activities. The broker requested SEBI not to pursue or initiate any further proceedings or impose penalty.

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 the significant points as under;

a) Whether the broker had failed to maintain order book

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It was alleged that the broker had not maintained order book. The broker stated that the orders were invariably and predominantly given by the clients on phone which were directly executed by the concerned operators sitting on the BOLT system. Hence all records would be available with the Exchange/SEBI. However, it had already started maintaining the

order book as confirmed vide its letter dated July 9, 2003. EO finds that the general market practice is to place orders directly on the system of the Exchange and since the broker started maintaining the order book, a lenient view be taken.

b) Whether there are discrepancies in the issuance of contract notes

It is alleged that though the contract notes bear pre-printed serial numbers on an annual basis, the broking entity does not exercise any control over the continuity of the serial numbers on the contract notes. Instances were observed where the contract notes pertaining to one settlement on the basis of continuing pre-printed serial numbers were used for other settlements. Further the broker is not taking acknowledgement on the duplicate copy of the contract note but is maintaining a separate book for the said purpose. The acknowledgements do not carry date with them as a result it is not possible to ensure whether the contract notes were issued within 24 hours. In a few cases, the broker had manually changed the pre-printed numbers on contract notes.

The broker stated that acknowledgement is given by clients directly on the peon book and at times inadvertently the dates are not put below the acknowledgements. The broker denied that it had manually changed the pre-printed numbers of the contract notes. The broker stated that sometimes the contract notes get stuck into the printers and hence gets garbled and therefore the serial numbers are written by hand. The broker further stated that BSE has now introduced issuance of contract notes electronically and the broker is implementing the same.

EO finds that documents like contract notes are to be handled with care. However, this is a minor technical violation, a lenient view be taken and the broker should be more careful in future.

c) Whether there were irregularities in the maintenance of client database

It is alleged that most of the agreements were not dated and a few of the client registration forms do not carry the financial details of the clients and other details like photographs, date on clients registration form and agreement, signature of the clients etc.

The broker replied that it will ensure maintenance of the requisite details like photographs, date etc in respect of all its active clients. The requirement of maintaining proper client database is to ensure protection of the stock brokers and hence it is in the interest of the broker to maintain the same properly. EO finds that by not maintaining the same in the prescribed manner, the broker has violated SEBI Circular No.SMD/POLICY/CIR/5-97 dated April 11, 1997.

d) Whether the broker has dealt with unregistered sub-broker

It is alleged that the broker has dealt with M/s Prime Investments and M/s.Triax Trading Pvt. Ltd., sub-brokers who are not registered with SEBI. In case of Prime Investment, the broker had applied for sub-broker registration with SEBI but the same was returned by SEBI. The broker replied that Triax Trading Pvt Ltd were its clients and not their sub-brokers and enclosed a copy of the Client Registration Form and Member-Client Agreement Form executed with them. As regards Prime Investment, the broker stated that it was under a bonafide belief that once an application for registration is made, it can do business for such sub-broker. However, it had stopped dealing with Prime Investments with effect from April 1, 2003.

The EO has found that the broker should not have entered into dealings with Prime Investment prior to its registration with SEBI as a sub-broker. However, the broker has terminated its relationship with effect from 1.4.03 which shows that it had taken corrective steps to rectify its mistake. However, this does not absolve the broker of violating SEBI Circular No.SMD/POLICY/Circular/3-97 dated 31.3.97. Regarding the broker's dealings with Triax Trading, since the broker has filed the member-client agreement, its explanation may be accepted.

e) Whether the broker has granted trading terminals to its clients

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It is alleged that the broker had kept its trading terminals at the clients place. Out of the 8 instances mentioned, 7 terminals have been withdrawn of which 3 were withdrawn before the relevant SEBI circular came into effect.

The broker submitted that out of 8 terminals, it had withdrawn 7 terminals. In respect of one terminal, it had requested BSE to clarify whether it could give the terminal to their direct client but it had not received any reply and stated that the terminal would be withdrawn before 16th August 2004. Since the broker has filed a copy of the member-client agreement and also de-registration of the bolt terminal in question, EO finds that the broker has taken corrective steps in this regard and hence no action is called for.

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

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. SVV Share and Stock Broker Pvt. Ltd., member, The Stock Exchange, Mumbai bearing SEBI Registration No. INB010991632 and direct it 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

DATE : 6/1/06

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA