

## 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. JUNJHARJI INVESTMENT PRIVATE LIMITED, MEMBER, NATIONAL STOCK EXCHANGE, SEBI REGISTRATION NO. INB230784134**

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**1.0 BACKGROUND**

- 1.1 M/s. Junjharji Investment Private 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. INB2307841034.
- 1.2 Inspection of the books of accounts, documents and other records of the broker was carried out by SEBI during January 2000 for the periods 1999-2000 and 2000-2001 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 July 24, 2003 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 29.03.04 and recommended that a warning be issued to the broker.
- 2.2 A copy of the Enquiry Report was sent to the broker on 07.02.05, in terms of Regulation 13(2) of the said Regulations, advising it 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 26.02.05 and stated that all relevant papers have been submitted to the Enquiry Officer during the hearing and that it will ensure necessary compliance in future. The broker further stated that since it had to bear a penalty of Rs.15000/- to NSE, no further penalty should be levied on it.

**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 failed to maintain order book, margin deposit book and documents register**

It was alleged that the broker did not maintain order book, margin deposit book and the documents register containing details of scrips.

The broker replied that it had margin deposit book but due to running account, the amounts were maintained in the clients ledger account. The broker further stated that it has maintained scrip ledger of shares received and delivered. However, the broker has not furnished any reply regarding non-maintenance of order book. The broker's explanation is not acceptable as maintenance of statutory books cannot be done as per the convenience of the broker. EO, therefore finds that the broker has not maintained the margin deposit book and order book and thereby violated Rule 15(1) & (2) of the Securities Contracts.

(Regulation) Rules, 1957, Regulation 17 (1) of SEBI (Stock Brokers and Sub-Brokers) Rules and Regulations, 1992 and SEBI Circular No.SMD/POLICY/IECG/1-97 Dated February 11, 1997.

**b) Whether the broker failed to maintain contract notes with running serial numbers, failed to obtain acknowledgement on duplicate copies of contract notes and whether the broker traded beyond trading hours**

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It was alleged that the contract notes were not bearing running serial numbers. In some cases trade time was not appearing in contract notes and in some cases trade time was beyond trading hours. There was no acknowledgement on duplicate contract notes.

The broker had replied that the contract notes were numbered serially on a daily basis and subsequently the contract notes have pre-printed serial numbers. Outstation contract notes were sent by post and a few acknowledgements may not have been received. The trades beyond trading hours are of ALBM nature which were done every Wednesday after 4 pm. The trade in question was also done on Wednesday. EO finds that the broker's explanation is satisfactory.

**c) Whether there was delay in making payment to clients in certain cases**

It was alleged that in certain cases payment to clients has been delayed.

The broker replied that the payment to the clients was made within the stipulated time of the pay-out as declared by the Exchange. However in some cases, the clients asked to withhold the same as it used to keep open positions in subsequent settlements and therefore in those cases as per the standing instructions of the clients, funds were withheld as margin/security. EO finds that the broker's reply appears to be satisfactory as during the Enquiry proceedings, the broker had furnished written letters from its clients specifically instructing it to withhold payments for use in subsequent settlements.

**d. Whether the broker has failed to fill client registration forms properly**

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It was alleged that in certain cases client registration forms have not been filled properly

The broker stated that none of the clients mentioned have ever traded or executed even a single transaction till date as it had not completed registration formalities. However, in respect of one Mr.Sushil Kumar Agarwal, it was brought out that the registration form was not maintained. The broker clarified that it entered into agreement on 6.8.96 and traded upto the period 1996-97. The "Know Your Client" was introduced on February 11, 1997 and was to be completed before May 31, 1997. Since the client had stopped dealing before that, he was not inclined to give registration form.

Further, in respect of Mr. Prabhas Ghosh, the inspection team had found that the agreement form was not maintained and the broker replied saying that the same was misplaced. Client identification is important since it makes audit trail easier. Similarly member-client agreement form is also an important document. EO finds that non-maintenance of the above documents is in violation of SEBI circular No.SMD/POLICY/CIR/5-97 dated April 11, 1997.

**e. Whether there were instances of delay in transfer of securities from pool account to beneficiary account**

It was alleged that instances of delay in transfer of securities from pool account to beneficiary account have been observed.

The broker replied that the delay in transfer of securities from broker's account to beneficiary account beyond 15 days are due to the delay in receiving payments from the clients and therefore the same were kept with the broker as security on approval from clients. During enquiry proceedings the broker had furnished written letters from its clients specifically instructing it to withhold securities. The broker's explanation seems to be acceptable especially due to the fact that there has not been any complaint from any of the clients either to SEBI or to the Exchange on the above issue.

**f. Whether the broker failed to segregate clients account and own account**

The broker stated that it has been maintaining separate bank accounts for client funds. However, the broking income comes in client account and since transfer takes time, some essential payments like service taxes, ALBM, Depository & Transaction charges etc were made due to urgency.

The EO found that the payment made out of client account were not necessarily client money but brokerage and other income which were deployed towards stock exchange fees and charges. Further, the broker had furnished auditor certificate stating that it has not used client funds towards business expenses.

4.0 The Enquiry Officer has recommended a minor penalty of warning. There are no 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 read with Regulation 13(4) of the said Regulations, I hereby warn M/s. Junjharji Investment Pvt. Ltd., member, National Stock Exchange, bearing SEBI Registration No. INB230784134 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 : 5/1/06**

**MADHUKAR**

**WHOLE TIME MEMBER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**