

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 MLR SECURITIES PVT. LTD., MEMBER, THE STOCK EXCHANGE, MUMBAI, SEBI REGISTRATION NO. INB010985433.

MO/84/MIRSD/01/06

1.0 BACKGROUND

- 1.1 M/s. MLR Securities 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. INB010985433.
- 1.2 Inspection of the books of accounts, documents and other records of the broker was carried out by SEBI for the period 01.04.2000 to 31.07.2002 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 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 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 04.02.05 and stated that it will follow all the rules and regulations prescribed by SEBI and the Exchange in full spirit and prayed to drop the proceedings.

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 failed to reflect order time on the contract notes and that the contract notes did not bear pre-printed serial numbers

With regard to the above allegation, the broker stated that it had adopted the format of contract note as prescribed by BSE which does not have the provision for printing order time on the contract notes. In respect of the contract notes not bearing pre-printed serial numbers, the broker stated that the serial numbers were generated on daily basis through computer software. The broker further stated that from April 2001 it had started issuing contract notes bearing pre-printed serial numbers. EO finds that generation of serial numbers through computer software is a general practice amongst brokers and hence a lenient view be taken.

b) Whether there were discrepancies in the Client Registration Form

The broker stated that the discrepancies observed by the inspecting team was that Net Worth Certificate and Income Tax return copy were not available for Individual and Hindu Undivided Family clients. The broker cited Circulars No.SMD/POLICY/IECG/1-97 and SMD/POLICY/CIRCULAR/5-97 and stated that as per the above circulars individuals and Hindu Undivided Family were not compulsorily required to submit their net-worth and income tax return copies. The broker further stated that it had collected copy of income tax return from many of the clients and as an alternative to bank certificates, the clients furnished photo-copies of Pass Book and bank statements and the same were shown to the inspecting team. EO finds that since the broker has already taken corrective steps by updating the records of their clients, the broker's explanation may be accepted.

c) Whether the broker had failed to segregate clients' funds from own funds.

The broker stated that the above discrepancy was found only in respect of one client account who is a member of another stock exchange and with whom the broker did its own trading as a client. The funds available from the payouts of own trading were transferred from settlement pay-out account to client bank account instead of own account. The broker stated that no money of any client has been utilized for own transactions and this can be clearly verified as there were no unpaid clients. The lack of precision of segregation is merely a technical lapse. The broker further stated that the said technical lapse was also rectified during the next financial year which was also included in the period of inspection and no such instances of non-segregation of funds have been reported by the inspection team.

Since the member has rectified the lapse and considering that there has been no misutilisation of clients money. EO finds that the said act of the broker though technical in nature is in violation of SEBI Circular No.SMD/POLICY/Cir/5-97 dated 11.4.97.

d) Whether the broker failed to collect margin money from the clients

With regard to the above allegation the broker stated that SEBI issued circular No.SMDRP/Policy/Cir-33/2000 dated July 27, 2000 and SEBI Circular No.SMDRP/Policy/Cir-06/2001 dated February 1, 2001 which requires the brokers to collect 10% margin from the clients. The broker stated that it collected margins from most of its clients even prior to this requirement. However, in the case of few clients whom it knew personally for many years, margin had not been collected in the initial period. However, soon after this requirement it has started collecting margins from all the clients from August 2000. As the inspection team has mentioned in their report that the broker has been collecting margins from clients since August 2000. EO recommends that a lenient view be taken.

e) Whether the broker has failed to frame a code of internal procedures and conduct for prevention of insider trading

With regard to the above allegation the broker submitted that it followed code of conduct as specified in Regulation 7 read with Schedule II of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 and also adopted the code of conduct specified in Regulation 12 of SEBI (Prevention of Insider Trading) Regulations, 1992 and stated that the inspection team has not mentioned that they have violated any of the above. The EO found that the broker has already framed code of internal procedures and conduct for prevention of insider trading and that the inspection report confirms that the broker had confirmed this orally. I agree with the findings of the EO that there is no violation in this regard.

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 SEBI (Procedure for holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby warn M/s. MLR Securities Pvt. Ltd., member, The Stock Exchange, Mumbai bearing SEBI Registration No. INB010985433 and direct it to be more cautious in future in their 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