

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

AGAINST M/s VINTAGE CAPITAL MARKETS LTD., MEMBER NATIONAL STOCK EXCHANGE, SEBI REGISTRATION NO. INB230794134 UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002.

1.0 BACK GROUND

- 1.1 M/s Vintage Capital Markets Ltd (hereinafter referred to as the 'broker') is a member of the National Stock Exchange (hereinafter referred to as 'NSE') and is registered with the Securities and Exchange Board of India (hereinafter referred to as 'SEBI') as a Stock broker under Section 12 of SEBI Act, 1992 with Registration Number INB230794134.
- 1.2 SEBI conducted inspection of books of accounts, documents and other records of the said broker under section 19(1) of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992. During the Inspection, certain irregularities were observed.

2.0 APPOINTEMENT OF ENQUIRY OFFICER

- 2.1 Inspection Report was forwarded to the broker on completion of inspection. Upon considering the broker's reply to the observations of the inspection, an Enquiry Officer was appointed vide order dated 08.1.2004 under Regulation 5(1) of SEBI (Procedure for Holding enquiry by enquiry officer and imposing penalty) Regulations, 2002 (hereinafter referred as the 'said regulations') to enquire into the alleged irregularities committed by the broker which were observed during the inspection.
- 2.2 A Notice dated 26.03.2004 was issued to the broker under Regulation 6 (1) of the said regulations. The broker submitted its reply dated 15.04.2004 and appeared for a personal hearing on 14.05.2004. The enquiry officer conducted the enquiry in terms of the said Regulations and the broker was given a fair and reasonable opportunity to make his submissions.
- 2.3 After considering the reply and the submissions made at the time of Personal hearing, the Enquiry officer submitted his report dated 10.08.2004 recommending a minor penalty of 'warning' to the said broker.

3.0 CONSIDERATION OF THE ENQUIRY REPORT

- 3.1 Based upon the Enquiry report and recommendation of the Enquiry Officer, a Show Cause notice dated 02.9.2004 under regulation 13(2) of the said Regulations was issued to the broker enclosing therewith a copy of the Enquiry Report. The broker submitted its reply vide letter dated 16.9.2004.
- 3.2 I have carefully considered the findings of the Inspection, Enquiry and the submissions made by the broker, and note significant points, as under:
 - a) As regards the allegation of the inspection team that contract notes do not bear pre-printed serial number and thereby the broker violated the provisions of SEBI Circular No.SMD/MDP/CIR/043/96 dated 5.8.96, the broker submitted that the contract notes issued by it with effect from 1.4.2003 have pre-printed continuous serial number. Prior to this date, the contract notes had computer generated serial numbers. The broker further submitted that the inspection team had verified the same, although it is not included in the report. The broker has admitted the lapse on its part. Since this is a minor technical lapse, a lenient view be taken.
 - b) It has been alleged that the broker did not collect requisite margins from clients. On perusal of SEBI Circular No.SMDRP/Policy/Cir-07/99 dated 4.2.2000, it is clear that the brokers should collect margins from the clients in a settlement if the margin exceeds Rs. 1,00,000/-. The inspection report had brought out 13 instances where the broker did not collect margins. The Enquiry Officer found that the broker is guilty of violating the provisions of SEBI Circular No.SMDRP/Policy/Cir-07/99 dated 4.2.2000, although the broker contended that it had obtained written consent from its clients to the effect that the broker can hold their shares, if there was any shortfall in the margin money, but no evidence was furnished by the broker.
 - c) It was alleged that though some of the transactions were recorded in the name of a particular client, delivery received /given to some other person. Further, it was also alleged that none of the persons in whose names the transactions were recorded in the sauda book was registered as sub-broker with SEBI and thus the broker violated the provisions of SEBI Circular No.SMD/Policy/Circular/3-97 dated 31.3.97 and SEBI Circular No.Sub-Brok/Cir/02/2001 dated 15.1.2001. Inspection report had pointed out 15 instances where deliveries were made to others DP account and not to the client DP account. The broker contended that in 5 cases it had transferred shares of a client to its beneficiary account as margin and in other cases, the person handling DP transactions has done the transfers inadvertently in respect of one

single client and it stopped dealings with the said client since 28.11.2001. The Enquiry Officer nevertheless maintains that the broker has violated the above mentioned circulars.

- d) As regards the allegation that the broker did not use the correct client code and thereby violated SEBI Circular Nos. SEBI Circular No.SMD/Policy/Circular/3-97 dated 31.3.97 and SEBI Circular No.Sub-Brok/Cir/02/2001 dated 15.1.2001, the broker submitted that in 90% of the cases the charge relates to change of name among family members. The broker further submitted that there are a few instances of wrong code punching, which have been brought to its notice at the end of the day and rectified with proper acknowledgements from the clients. The enquiry officer finds it difficult to accept this contention of the broker.
- e) With regard to other irregularities alleged to have been committed by the broker like non issuance of contract notes within 24 hours of trade execution, misutilisation of client fund, involvement in fund lending activities, involvement in front running, not taking prior approval for issuance of advertisement and change in shareholding pattern, non-appointment of compliance officer, not framing a code of internal procedure and conduct for prevention of insider trading etc, the enquiry officer after considering the material on record and the submissions of the broker found that they are not established. However, in a very few cases, the enquiry officer found that there are minor and technical lapses on the part of the broker for which no penalty is warranted.

4.0 On a careful perusal of the allegations and the explanations rendered by the broker, I have no substantive reasons to differ with the enquiry officer. Accordingly, I am of the view that it would meet the ends of justice if a warning is given to the broker.

5.0 ORDER

5.1 Now, therefore, in exercise of powers conferred upon me in terms of Section 19 of SEBI Act, 1992 read with Regulation 13(4) of the said Regulations, I hereby warn M/s Vintage Capital Markets Ltd. (INB230794134), member National Stock Exchange 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 the part of the broker in complying with the said provisions would invite stringent action.

5.2 This order shall come into force with immediate effect.

Place: Mumbai

Madhukar

Date: 12.1.06

Whole Time Member

Securities and Exchange Board of India