

## 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 LIQUID INVESTMENTS AND FINANCIAL SERVICES (INDIA) PVT. LTD., MEMBER, NATIONAL STOCK EXCHANGE, SEBI REGISTRATION NO. INB230778737.**

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**1.0 BACKGROUND**

1.1 M/s. Liquid Investments and Financial Services (India) Pvt. 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. INB230778737.

1.2 Inspection of the books of accounts, documents and other records of the broker was carried out by SEBI for the period 1.4.2000 to 31.10.2002 and 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 December 11, 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 28.10.04 recommending for imposition of a minor penalty of warning on the broker.

2.2 A copy of the Enquiry Report was sent to the broker on 04.11.04, in terms of Regulation 13(2) of the said Regulations, advising it to show cause as to why appropriate penalty including the penalty as recommended by the Enquiry Officer should not be imposed. However, the broker has not replied to the show cause notice.

**3.0 CONSIDERATION OF ISSUES**

3.1 I have carefully considered the findings of inspection and Enquiry and note that the broker has not replied to the show cause notice. The EO has found the broker guilty of various violations and my observations in this regard are as under :

a) **Irregularities in maintenance of Order Book**

It was alleged that the broker was not maintaining order book. Further, time of receiving of order was not reflected on the contract notes issued by it. The broker stated that majority of the orders were placed on phone and some orders were placed in person in the trading room. As the frequency of orders received on phone was fast, it was impractical to record the order in the order book and then punch the same in the online trading terminal. The broker admitted its lapses with regard to non-maintenance of order book, the EO thus found that it has violated SEBI Circular No.SMD/Policy/IECG/1-97 dated February 11, 1997.

b) **Irregularities in issuance of contract notes**

It was alleged that the contract notes for the period 1.4.00 to 31.3.02 did not bear pre-printed serial numbers. The serial numbers were computer generated and started with a fresh series daily. It was further alleged that the broker did not obtain dated acknowledgements from clients on the duplicates in the absence of which it could not be confirmed whether the contract notes were being issued within 24 hours of trade execution.

The broker submitted that since 1.4.02, the stationery used by it bore the requisite pre-printed serial numbers. The broker further submitted that the contract notes were generally sent by mail/courier due to which acknowledgement could not be taken and that the acknowledgement were being taken on duplicate contract notes which were collected/delivered personally. The broker admitted its lapses, EO thus found it guilty of violating SEBI Circular No.SMD/MDP/CIR/043/96 dated August 5, 1996

c) **Non-maintenance of Broker-Client Agreements/Client Registration Forms**

It was alleged that the broker had not obtained client registration forms from all the clients who traded through them prior to January 2002 and some registration forms obtained with respect to clients trading subsequent to this date were incomplete.

The broker admitted that some forms were incomplete and that in a few instances only one proof could be produced. This was due to haphazard filing and in-experience. The broker further stated that adequate steps have been taken to ensure full compliance and that no such discrepancies shall occur again. As the broker admitted its lapses, the EO found it guilty of violating SEBI Circular No.SMD/POLICY/IECG/1-97 dated February 11, 1997 and SMD/POLICY/CIR/5-97 dated April 11, 1997.

d) **Payment received from clients deposited in own account**

It was alleged that on several occasions the broker had not maintained a clear segregation between client and own funds. There were 9 instances of cheques received from clients being deposited in the broker's a/c No.773 maintained with Punjab & Sind Bank. The broker submitted that out of the 9 instances, 7 were for very early period of operations wherein mistake occurred due to in-experienced staff and inadequate knowledge. The broker further stated that they had issued strict instructions that no payments except those permitted should be made out of client account. As the broker admitted its mistake, the EO held him guilty of violating SEBI Circular No.SMD/SED/CIR/93/23321 dated November 18, 1993.

e) **The broker dealt with unregistered sub-brokers**

It was alleged that the broker had dealt with unregistered sub-brokers and in most of the cases, trades were executed in various client codes, whereas contract notes were issued to these entities. The broker submitted that the dealings with the unregistered sub-broker were not intentional at all but were due to certain misrepresentation/assurances given by the clients that the dealings were on their behalf only and not for any third parties. However, when the broker found that some of the dealings were made on behalf of third parties, it asked its clients to get the registration immediately from the concerned authorities failing which the dealings would be stopped. Since the broker admitted the discrepancies, the EO found it guilty of violating SEBI Circular No.SMD/Policy/Cir/3/97 dated March 31, 1997 and also the provisions of Clause A(5) of Schedule II specified under Regulation 7 of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.

f) **Non-appointment of Compliance Officer**

It was alleged that no compliance officer had been appointed by the broker. The broker submitted that it had come to know of this requirement only through NSE Circular dated 14.6.2002 which was almost towards the end of the period covered under inspection and hence appointed the compliance officer in March 2004. The EO, therefore found the broker guilty of Regulation 18A of SEBI(Stock Broker and Sub-broker) Regulations 1992.

4.0 On a careful perusal of the charges, findings of inspection and enquiry, I find that the broker had accepted the allegations made against it. Further I find that the broker has already been penalized to the extent of Rs.1,50,000 in adjudication proceedings and another penalty of Rs.25,000 was imposed by NSE for dealing with unregistered sub-brokers. In view of the facts and circumstances of the case, I have no substantive reason to differ with the findings of the EO.

**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. Liquid Investments and Financial Services (India) Pvt. Ltd. member, NSE bearing SEBI Registration No. INB230778737 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**

**DATE : 13.1.06**

**MADHUKAR**

**WHOLE TIME MEMBER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**