

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 HEM SECURITIES LTD., MEMBER, THE STOCK EXCHANGE, MUMBAI SEBI REGISTRATION NO. INB011069953.**1.0 BACKGROUND**

- 1.1 M/s. Hem Securities. 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. INB011069953.
- 1.2 Inspection of the books of accounts, documents and other records of the broker was carried out by SEBI for the period April 2000 to September 23, 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 January 9, 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 23.12.04 recommending for imposition of a minor penalty of censure on 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 as recommended by the Enquiry Officer should not be imposed.
- 2.3 The broker vide letter dated 02.02.05 sought extension of time upto 1 month and thereafter replied to the show cause notice vide letter dated 07.3.05. The broker submitted that it has not violated any major provisions of the SEBI Act, Rules and Regulations made thereunder. It has been in the broking business for almost nine years and is having huge turnover through retail investors. It has a good reputation and imposition of penalty is bound to affect its reputation. The broker further stated certain mitigating factors and prayed to take into account the same.

3.0 CONSIDERATION OF ISSUES

- 3.1 I have carefully considered the findings of inspection, Enquiry and the submissions made by the broker. Though the inspection report lists a number of violations alleged to have been committed by the broker, the EO has found the broker guilty of only three violations. I have noted the significant points as under:

a) Contract notes not issued in a few cases

It was alleged that contract notes were not issued in a few cases. Further, in the absence of date on the acknowledgement, it was unable to state whether the contract notes were issued within 24 hours of the execution of the trade and in some cases there was delay in issuing contract notes. The broker submitted that because of bug in the software being used for back office accounting, some trades of the same rate were getting consolidated. The broker had obtained written consent of such clients for consolidation of the trade. The broker submitted that it always issues contract notes within 24 hours of execution of the trade and it dispatched contract notes to all parties asking them to return duplicate copy thereof after affixing signature and date but sometimes the clients just return the duplicates without putting the date. The EO found the reply submitted by the broker generally satisfactory. The EO however observed that the broker did not notice the software problem till the inspection team pointed out the deficiencies.

b) Dealt with unregistered sub-brokers

It was alleged that the broker dealt with a few clients viz M/s. Mahaveer Finlease of Bikaner, M/s. Shree Balajee Securities of Abohar and Kapoor Shares and Services Ltd of Ajmer who seemed to be acting as sub-broker though they were not registered with SEBI. They were having BOLT terminal with them and the client code id which they were entering in BOLT were different. The broker submitted that Krishna Kapoor Shares Services Pvt. Ltd. is the correct name of the company and not Kapoor Shares & Services Ltd. as indicated in the inspection report and certificates of registration were granted to it and M/s. Shree Balajee Securities. The application of Mahaveer

Finlease is pending with BSE and BSE has directed the broker to obtain a fresh demand draft towards the fee payable. The broker furnished a copy of the said letter of BSE and the certificates of registration granted by SEBI to Krishna Kapoor Share Services Pvt Ltd and Shree Balajee Securities at the time of personal hearing. With respect to the allegation that different sub-brokers were entering same client id on BOLT terminal at the time of executing the order, the broker submitted that there were no such transactions in the same scrip in respect of code numbers mentioned which were resulting in squaring up of the different positions in the same scrip while margin was calculated by the BSE system. The EO found that the explanation of the broker was not satisfactory and that it should have exercised due caution and diligence while executing the orders placed by the said entities to rule out that they were placed on behalf of third parties and therefore, the broker violated the code of conduct prescribed for the stock-brokers under Schedule II of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.

c) **Trading terminals granted to clients**

It was alleged that a few terminals were granted to clients by the broker in contravention of circular No.SMDRP/Policy/Cir-49/2001. The broker submitted that out of the nine instances pointed out, eight terminals pertain to the sub-brokers either registered or applied for registration before the date of inspection. However, in the written reply submitted to the EO, the broker stated that the aforesaid nine entities were acting as clients and the facility was not utilized for carrying out the activities of unregistered sub-brokers. The broker furnished the present status of the aforesaid entities according to which the terminals were either looked after by the staff of the broker or the terminal given to the party was withdrawn. The broker stated that it received Circular No.2002121718 of BSE dated December 17, 2002 and that it had taken necessary steps. The EO observed that the BSE circular was issued subsequent to the date of inspection. However, SEBI Circular No.SMDRP/Policy/Cir-49/2001 dated October 22, 2001 was in force during the period of inspection and the broker was duty bound to comply with the same. The EO further observed that the broker did not give any explanation with respect to extending trading terminal to Geetha Enterprises of Sikar. The EO therefore found that the broker had violated the provisions of the above SEBI Circular.

d) As regards other allegations like margin money not collected, delay in payment of funds and delivery of securities, brokerage not collected in few cases, Know Your Client forms not obtained, lent funds to associate company, compliance officer not appointed, audit report not submitted to the exchange, the EO after considering the material on record and the submissions made by the broker did not find the broker guilty of any violations.

4.0 In the facts and circumstances of the case, I have no substantive reasons 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 censure M/s. Hem Securities Ltd., member, National Stock Exchange, bearing SEBI Registration No. INB011069953.

5.2 This order shall come into force with immediate effect.

PLACE: MUMBAI

DATE : 12.1.06

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA