

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

AGAINST M/s.ARCADIA SHARES & STOCK BROKERS PVT LTD., MEMBER – NATIONAL STOCK EXCHANGE SEBI REGISTRATION NO. INB230778238 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 Arcadia Shares & Stock Brokers Pvt Ltd (hereinafter referred to as the 'broker') is a corporate member of the National Stock Exchange, Mumbai (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 INB230778238 .
- 1.2 An Inspection of the Books of Accounts, Documents and other records maintained by the broker for the period April 1, 2001 to June/July, 2003, was carried out by M/s. Kochar & Associates, Chartered Accountants appointed by SEBI vide letter no.SMD/DBA-1/Pre-Insp/AK/5980/2003 dated March 24, 2003. During the inspections, certain irregularities found to have been committed by the broker were observed.

2.0 ENQUIRY PROCEEDINGS

- 2.1 The Inspection Reports were forwarded to the broker on completion of inspection vide letter dated August 12, 2004 and an Enquiry Officer was appointed vide Order dated August 24, 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 inspections.
- 2.2 A Notice dated August 12, 2004 was issued to the broker under Regulation 6 (1) of the said regulations. The broker submitted its reply vide letters dated September 7, 2004 and September 17, 2004 and appeared for personal hearing before the Enquiry Officer on November 22, 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. After considering the reply and the submissions made at the time of personal hearing the Enquiry officer submitted his report dated December 3, 2004 recommending a minor penalty of 'warning' to the broker.

3.0 SHOW CAUSE NOTICE AND THE BROKER'S SUBMISSIONS

- 3.1 A copy of the Enquiry Report was sent to the broker along with a show cause notice dated December 16, 2004, in terms of Regulation 13(2) of the said Regulations calling upon it to show cause as to why appropriate penalty including the penalty as recommended by the Enquiry Officer should not be imposed on it.

4.0 CONSIDERATION OF ISSUES

- 4.1 I have carefully considered the findings of the Inspection, Enquiry and the submissions made by the broker, and note significant points, as under :
- a) On the allegation of non-segregation of client and own account, the broker submitted that NSE had already imposed penalty for these deficiencies subsequent to the inspection conducted by them. Imposition of penalty has no bar for SEBI to impose independent penalty under its own rules and Regulations.
 - b) With regard to the charge that the broker was maintaining running accounts for a considerable period of time without receipts/payments, the broker submitted that the said running accounts were maintained under written instructions of the clients and it produced authority letters from clients for the same. As regards, payments received from/ made to clients inspite of credit / debit balances, the broker submitted that these additional payments were received from clients for future transactions and additional exposure / margin in the market. The broker further submitted that accounts of one client were adjusted with those of other only on the instructions of the clients. However, the Enquiry Officer found all these acts reflecting lack of due diligence on the part of the broker.
 - c) SEBI had issued a circular to all stock exchanges on August 5, 1996 pointing out some common deficiencies / violations observed while carrying out inspections of brokers and advising them to inform their brokers to improve their systems so as to avoid such violations. The broker submitted that no loss had been caused to any investor due to the administrative and technical lapses. The Enquiry Officer found that the broker failed to exercise due care and diligence and did not take effective steps to avoid some of the violations.

d) With regard to other allegations like dealing with unregistered sub-brokers, the Enquiry Officer, after considering the submissions made by the broker and the material on record opined that a benefit of doubt may be given to the broker. Further, the Enquiry Officer noted that for certain other deficiencies, NSE has already imposed monetary penalty upon the broker and also the broker has taken necessary corrective steps after NSE inspection.

4.2 I have no substantive reasons to differ with the findings of the Enquiry Officer and in view of the above, 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 under 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 Arcadia Shares & Stock Brokers Pvt Ltd (INB230778238), Member, National Stock Exchange, Mumbai 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 effect immediately.

Place: Mumbai

Date: 12.1.06

Madhukar

Whole Time Member

Securities and Exchange Board of India