

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 PRB SECURITIES PVT. LTD., MEMBER, NATIONAL STOCK EXCHANGE, SEBI REGISTRATION NO. INB230778531.

1.0 BACKGROUND

- 1.1 M/s. PRB Securities 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. INB230778531.
- 1.2 Inspection of the books of accounts, documents and other records of the broker was carried out by SEBI 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 16, 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 29.10.04 recommending imposition of a minor penalty of censure on the broker.
- 2.2 A copy of the Enquiry Report was sent to the broker on 07.02.05, 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 28.02.05 submitted that it had already offered its explanation before the EO and had nothing more to state

3.0 CONSIDERATION OF ISSUES

- 3.1 I have carefully considered the findings of inspection, Enquiry and the submissions made by the broker and my observations are as follows :

a) **Deficiencies in the maintenance of books of accounts**

It has been alleged that in the Register of Securities instead of recording the actual date of delivery/receipt of securities, the pay-out/pay-in date for relevant settlement was given. There was no date wise balancing appearing in the computerized Bank Book, General Ledger and Client Ledger as provided to the inspection team. The balancing was done in these books only at the year end. In the absence of date wise balancing, the extent of outstanding/balance on any given date was not reflected in the above books of account. The broker submitted that it had complete record of transactions of pool account and Beneficiary account showing the actual date of receipt and delivery of shares. The broker further submitted that balancing ledger on daily basis or on periodic basis was a subject matter of accounting practice being followed by different entities. The EO found the broker's explanation unsatisfactory and found that maintenance of register of securities was a statutory requirement.

b) **Deficiencies in the maintenance of client database**

It has been alleged that out of the total number of 87 clients of the broker, deficiencies were observed in 42 agreements with the clients and 41 client registration forms. The broker submitted that it maintained complete database of its clients and the minor deficiencies pointed out were immediately rectified. The broker further submitted that the clients generally avoid giving details of income/portfolio for some or other reason and the broker did not pressurize them for those information. The EO found that the broker admitted that there were deficiencies in the registration forms and therefore should not have traded on behalf of these clients. The EO therefore found the broker guilty of violating SEBI Circular No. SMD/POLICY/IECG/1-97 dated 11.2.97.

c) **Non-segregation of funds**

It has been alleged that the broker failed to segregate clients' funds from own funds. The broker submitted that there was only one incident in a period of 26 months covered in the inspection that an amount of Rs.41,080/- was

deposited in own account which was supposed to be credited to the client account. The broker submitted that this was not intentional but a mistake made by the dealing person. It was further alleged that the broker misutilised the clients' funds to the tune of Rs.111.40 lakhs. The broker submitted that it was not misutilisation of client fund of Rs.111.40 but over fund to the tune of Rs.45.60 lakhs which was utilized for the benefit of the clients. The EO found that though the broker accepted that there was an irregular utilization of clients' funds to the tune of Rs.45.60 lakhs it failed to explain the details of benefit caused to the clients as claimed. The EO therefore found the broker guilty of violating SEBI Circular No.SMD/SED/CIR/93/23321 dated November 18. 1993.

d) **Irregularities in trading operations**

It has been alleged that the broker had entered into many transactions where both the buyer and seller was the broker himself. The broker submitted that it was engaged in arbitrage dealings having 22 work stations. All the dealers were putting orders simultaneously. Neither the order nor the trade were of similar quantity. The EO found the broker's explanation unsatisfactory. I agree with the observations of the EO that the broker should have proper coordination between various persons operating its trading terminals and the explanation offered by the broker reveals complete lack of coordination and proper supervision of the employees of the broker. The EO therefore found the broker guilty of violating the code of conduct prescribed under SEBI (Stock brokers and sub-brokers) Regulations, 1992.

e) **Non-utilisation of Unique Client Code**

It has been alleged that the broker did not use the unique client code while placing orders in the trading system. The broker submitted that its main activity was jobbing and arbitrage and broking business was marginal. The broker stated that it used to put all its orders in the trading system in self/proprietary account and at the end of trading, it used to put the trade in the respective client in the back office computer. The broker further submitted that it has since changed this practice and now all client orders are being entered into the system under its client code. The EO found that the broker has accepted the contravention and has violated SEBI Circular No.SMDRP/Policy/Cir-39/2001 dated July 18, 2001.

- f) As regards other allegations like non-issuance of order confirmation slip, order modification slip and trade confirmation slip, non-mentioning of order time in the contract notes, adjustment of payment obligations to clients against the amounts receivable, borrowing of money from clients for investment in mutual funds, non-collection of margins and failure to comply with regulatory requirements, the EO did not find the broker guilty of any violations.

4.0 On a careful perusal of the charges, findings of inspection and enquiry and the submissions made by the broker, 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 censure M/s. PRB Securities Pvt. Ltd., member, NSE, bearing SEBI Registration No. INB230778531.

5.2 This order shall come into force with immediate effect.

PLACE: MUMBAI

DATE : 13.1.06

MADHUKAR

WHOLE TIME MEMBER

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