

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

AGAINST M/s.KAYNET FINANCE LTD., MEMBER - NATIONAL STOCK EXCHANGE, MUMBAI, SEBI REGISTRATION NO. INB230673830 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 Kaynet Finance Ltd (hereinafter referred to as the 'broker') is a member of 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 INB230673830.
- 1.2 An Inspection of the Books of Accounts, Documents and other records maintained by the broker for the period April 1, 2000 to September 30, 2002, was carried out by M/s. Kirtane & Pandit, Chartered Accountants appointed by SEBI vide letter no.SMD/DBA-1/Pre-Insp/AK/14877/2002 dated August 6, 2002. During the inspection, certain irregularities found to have been committed by the broker were observed.

2.0 ENQUIRY PROCEEDINGS

- 2.1 The Inspection Report was forwarded to the broker on completion of inspection. After considering the broker's reply dated 17.4.2003 an Enquiry Officer was appointed vide Order dated 16.7.2004 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 22.6.2004 was issued to the broker under Regulation 6 (1) of the said regulations. The broker submitted its reply vide letter dated 22.7.2004 and appeared for a personal hearing on 29.12.2004 before the Enquiry Officer. The enquiry officer conducted the enquiry in terms of the said Regulations and the broker was given a fair and reasonable opportunity to make its submissions. After considering the reply and the submissions made at the time of personal hearing, the Enquiry officer submitted his report dated 24.1.2005 and recommended 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 25.4.2005, 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 noted significant points, as under :
- 4.2 With regard to the charge of delay in issuance of contract notes, the broker submitted that these delays were due to clerical mistakes and that it has put in place a system to ensure that the contract notes would be printed and sent to the clients on the day of the trade. The Enquiry officer recommended that the broker be warned to be careful in future.
- 4.3 With regard to the allegations that the contract notes were not serially pre-printed and the PAN of the clients were not appearing on the contract notes, the broker submitted that it started serially numbering contract notes on annual basis from April 01, 2002. The Enquiry Officer found the violation noted by the inspection team only a technical violation.
- 4.4 As per the inspection report, there were discrepancies in the bills as well as in the register of transactions of the contract notes. The broker submitted that these discrepancies were due to the back office software problems and that there were no disputes from any of its clients for these transactions. It further submitted that all the corrections were notified to the clients subsequently. The Enquiry Officer recommended that necessary steps for rectification of the back office system should be taken by the broker.
- 4.5 With regard to the allegation that brokerage was not charged to one of its clients, the broker submitted that with the exception of certain instances in settlement nos.2000017, 2000052 and 2000053 only to one client, all the contract notes were issued to clients and brokerage was charged to all clients. Considering the submissions of the broker, the Enquiry Officer considered pardoning the broker for the above lapse.

- 4.6 As regards the pending complaint filed by Haven Financial Services Pvt Ltd with the exchange, the broker submitted that NSE has conducted a thorough inspection of the case and has not found any substance. The Enquiry Officer stated that the matter is still under consideration of NSE and therefore not considered as an issue under the enquiry.
- 4.7 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 Kaynet Finance Ltd (INB230673830), 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 the part of the broker in complying with the said provisions would invite stringent action.
- 5.2 This order shall come into effect immediately.

Place: Mumbai

Date: 13.1.06

Madhukar
Whole Time Member
Securities and Exchange Board of India