

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 M/s. Patterson & Co. Pvt. Ltd., sub-broker (Registration No: INS010762131), affiliated to M/s MSE Financial Services Ltd., Member of The Stock Exchange, Mumbai.

1.0 BACKGROUND

- 1.1 M/s. Patterson & Co. Pvt. Ltd. is a sub broker having SEBI Registration No. INS010762131 (hereinafter referred to as the sub-broker), affiliated to M/s MSE Financial Services Ltd.
- 1.2 Securities and Exchange Board of India (hereinafter referred to as SEBI) conducted an inspection of the books of accounts and other documents of sub-broker and observed certain irregularities allegedly committed by sub-broker.

2.0 ENQUIRY PROCEEDINGS

- 2.1 In view of the above, SEBI vide order dated September 30, 2004 appointed an Enquiry Officer under Regulation 5 of SEBI (Procedure for holding Enquiry by Enquiry Officer and Imposing penalty) Regulations, 2002 (hereinafter referred to as Enquiry Regulations) to enquire into the irregularities observed during the inspection of books of accounts of the sub broker and the Enquiry Officer after conducting the Enquiry in terms of the Enquiry Regulations submitted his Enquiry Report dated September 23, 2005 and recommended a minor penalty of censure against the sub-broker.
- 2.2 A copy of the said Enquiry Report was forwarded to the sub-broker along with a Show Cause Notice dated October 03, 2005 advising it to show cause as to why appropriate penalty including the penalty as recommended by the Enquiry Officer should not be imposed on it.
- 2.3 The sub-broker replied vide letter dated October 7, 2005 and inter alia submitted that there are only a few small irregularities which it had admitted even during the inspection and has also rectified these shortcomings subsequently and requested to treat these lapses leniently.

3.0 CONSIDERATION OF ISSUES AND FINDINGS

- 3.1 I have carefully considered the findings of inspection, Enquiry report and the submissions made by the sub-broker. Though the inspection report lists a number of violations alleged to have been committed by the sub-broker, the Enquiry Officer has found the sub-broker guilty of violations, as follows:

- (a) It was alleged that the sub-broker has not maintained book of accounts, records, etc.

The sub-broker submitted that it had failed to maintain the order book at the time of inspection which was admitted by it and also subsequently rectified. I note that the Enquiry Officer found that the sub-broker had admitted the violation and therefore rightly concluded that by not maintaining the order book, the sub-broker had violated the provisions of Regulation 17(1) of the SEBI (Stock Broker and Sub-Broker) Regulations, 1992 (hereinafter referred to as the Broker Regulation).

- (b) The sub-broker was alleged to have not maintained mandatory minimum margins by the clients and had not furnished the requisite Auditor's Certificate on quarterly basis.

The sub-broker submitted that there were only 5 instances in the inspection report out of which the maximum margin which had not been collected was Rs.19,997/- and the minimum margin was as low as Rs.204/-. It was further submitted that it shall ensure that all margins are collected on time and requested to pardon this lapse since the amounts involved in these cases are very small. I note that the Enquiry Officer rightly concluded that though the margin may be a small amount however, by its failure to adhere to the margin requirements, the sub-broker has violated the provisions of SEBI Circular SMDRP/Policy/Cir.33/2000 dated July 27, 2000, SEBI Circular No. SMDPR/Policy/Cir-06/2001 dated February 1, 2001 and the provisions of Code of Conduct under Regulation 15 of the Broker Regulations.

- (c) It was alleged that the sub-broker did not maintain client database properly.

The sub-broker submitted only 5 instances of non maintenance of client registration forms have been noticed in the inspection report which is a very small number when considering the number of clients it has on its books. I note that the Enquiry Officer considering the fact that only 5 instances of non maintenance of client registration forms were noted and taking into account the submissions of the sub-brokers that subsequent to the inspection it strictly follows registration requirements, concluded that the violation committed by the sub-broker may be viewed leniently.

- (d) It was alleged that the sub-broker was maintaining only one bank account for receipts and payments pertaining to both the sub-broker and the clients.

The sub-broker submitted that this defect has been subsequently rectified and requested to view this lapse leniently. I note that the Enquiry Officer found that the sub-broker had failed to segregate its own funds from its clients funds. However, it has been maintaining separate accounts subsequent to the inspection and therefore the Enquiry Officer held that the contravention committed by the sub-broker may be viewed leniently.

- 3.2 With regard to the other charges like acting as unregistered sub-broker, dealing with unregistered sub-broker, non-reporting of the off floor transactions, delay in delivery and payment to the clients, assisting members of other exchanges in evasion of margin and delay in payment of margin, the Enquiry Officer did not find the sub-broker guilty of violation of any Circular or Regulation.
- 3.3 On a careful perusal of the charges, findings of inspection and enquiry and the submissions made by the sub-broker, I have no substantial reason to defer with the findings of the Enquiry Officer. Regulations, Rules and Circulars are primarily to ensure integrity of the capital market, which calls for full understanding and commitment of all concerned towards total compliance of Regulations. Sub-brokers being the important intermediary, are expected to do so flawlessly.

4.0 ORDER

- 4.1 Now, therefore, in exercise of the powers conferred upon me under section 19 of SEBI Act, 1992 read with Regulation 13(4) of SEBI (Procedure for Holding Enquiry by the Enquiry Officer and Imposing Penalty) Regulations, 2002, I censure Patterson & Co. Pvt. Ltd., sub-broker (Registration No: INS010762131), affiliated to M/s MSE Financial Services Ltd. and direct it to be more cautious in future in its dealings with securities and adhere to the provisions of SEBI Act, 1992, Rules and Regulations made thereunder. Any future lapse on the part of the sub-broker in complying with the said provisions would invite stringent action.
- 4.2 This order shall come into force with immediate effect.

DATE: 18/01/2006

PLACE: MUMBAI

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA