

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 COCHIN STOCK BROKERS LTD., MEMBER, THE STOCK EXCHANGE, MUMBAI AND NATIONAL STOCK EXCHANGE HAVING SEBI REGISTRATION NOS. INB011076933 AND INB231076937.

1.0 BACKGROUND

1.1 M/s. Cochin Stock Brokers Ltd. (hereinafter referred to as "the broker") is a member of The Stock Exchange, Mumbai ("BSE") and National Stock Exchange ("NSE") registered with SEBI as a stock broker under section 12 of SEBI Act, 1992 with SEBI Registration No. INB011076933 and INB231076937.

1.2 Inspection of the books of accounts, documents and other records of the broker was carried out by SEBI for the period 28.12.99 to 9.3.02 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 August 22, 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 28.04.05 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 18.05.05, 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 replied vide letter dated 30.05.05 and submitted that during the subsequent inspection in September all suggestions were found to have been implemented, all the lacunae rectified and the broker had attained a smooth working system. The broker further submitted that it had made every endeavour to carry on its share and stock broking business in accordance with the statutory requirements. Hence a lenient view may be taken in the matter.

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) **Permitting sub-brokers to trade without BMC**

The broker submitted that the concept of BMC was not applicable to a subsidiary. However, in terms of the circular dated 26.11.99, separate deposit of Rs.25,000/- for BSE sub-broker and another Rs.25,000/- for NSE were collected from the sub-brokers, which was maintained separately and exposure limit of the sub-brokers was based on the deposit so received and at no time the limits were allowed to exceed. The EO did not find the explanation of the broker satisfactory in the light of Clause 5 of Circular dated 26.11.99 as the said circular does not specify the amount of BMC which has to be deposited with the subsidiary but leaves it to the discretion of the subsidiary. The exposure limit will be monitored as per the BMC deposited by the sub-broker. It was fixed as per the internal guidelines of CSBL at the rate of Rs.25,000/- each for BSE

and NSE. The EO found that in one instance, the sub-broker was permitted to trade without sufficient BMC.

b) **Dealing with unregistered sub-brokers**

The broker activated the terminals of sub-brokers and allowed them to trade before receiving SEBI Registration Certificate. The broker submitted that the applications were sent to BSE/NSE which had in turn sent the same to SEBI for issuance of certificate. Therefore, under the bonafide belief that SEBI Registration is forthcoming, they were allowed to trade. The broker has admitted the contravention and thus the EO found him guilty of the violations.

c) As regards the other violations like failure to affix stamps on contract notes, short collection of margins from sub-brokers, dealing in securities on own account, the EO did not find the broker guilty of any violations, which can be

penalised.

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. Cochin Stock Brokers Ltd., member, BSE and NSE, bearing SEBI Registration No. INB011076933 and INB231076937.

5.2 This order shall come into force with immediate effect.

PLACE: MUMBAI

DATE : 24.1.06

MADHUKAR

WHOLE TIME MEMBER

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