

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

AGAINST M/S. TRUST HOUSE SECURITIES LTD., MEMBER NATIONAL STOCK EXCHANGE, SEBI REGISTRATION NO. INB230771930 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 Trust House Securities Ltd. (hereinafter referred to as the 'broker') is a member of the National Stock Exchange (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 INB230771930.
- 1.2 An Inspection of the Books of Accounts, Documents and other records maintained by the broker was carried out by M/s. Patni & Co., Chartered Accountants appointed by SEBI for the period 1.4.2000 to 30.09.2001. During the Inspection, certain irregularities found to have been committed by the broker were observed.

2.0 APPOINTEMENT OF ENQUIRY OFFICER

- 2.1 Inspection Report was forwarded to the broker on completion of inspection. After considering his reply, an Enquiry Officer was appointed vide order dated 13.11.2003 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 06.8.2004 was issued to the broker under Regulation 6 (1) of the said regulations. The broker replied to the notice vide its letter dated 25.08.04 and sought a personal hearing. The broker was granted hearing before the enquiry officer on 08.12.04. 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.
- 2.3 After considering the submissions of the broker, the Enquiry officer submitted his report dated 15.04.2005 recommending a minor penalty of 'censure' on the said broker.

3.0 CONSIDERATION OF THE ENQUIRY REPORT

- 3.1 Based upon the Enquiry report and recommendation of the Enquiry Officer, a Show Cause notice dated 25.04.2005 under regulation 13(2) of the said Regulations was issued to the broker enclosing therewith a copy of the Enquiry Report. The broker submitted its reply vide letter dated 12.5.2005.
- 3.2 I have carefully considered the findings of the Inspection, Enquiry and the submissions made by the broker, and note significant points, as under :
 - a) It has been alleged that the broker has not entered the agreements with his clients. The broker admitted that they had relied on verbal assurance given by clients that they would submit all the documents at a later date. However, the clients failed to provide all the necessary documents. The broker also submitted that during the shifting of their office, few files were misplaced because of which they could not furnish the agreement of the clients. The enquiry officer found the plea of the broker that the client registration agreements have been misplaced at the time of shifting of office not convincing. Maintenance of client registration forms is the duty of the broker and it is mandatory on the part of the broker to maintain the client registration forms in safe custody and an extra set of the agreements of all the clients whether they are active in transaction with the broker or not. Hence, the enquiry officer concluded that the broker is guilty.
 - b) With regard to other charges like non-maintenance of statutory books, non maintenance of contract notes, non-segregation of client / own funds the enquiry officer after considering the material on record and the submissions of the broker found them as technical and administrative lapses on the part of the broker and did not find any substantive violation, which can be punished.
- 3.3 The following are considered as the mitigating factors :
 - a. The inspection report does not mention any client complaints alleging deficiency of service, misuse of clients money or assets.
 - b. There is no mention of repetitiveness of lapses committed by the broker.

c. There is no mention in the inspection report of any instances of reported failure of payment of margins by the broker.

d. There is no mention of misuse of settlement system.

3.4 On a careful perusal of the findings of inspection, charges and submissions made by the broker, I find that the violations committed by the brokers are minor procedural lapses, except that the broker did not enter into agreements with clients which is a violation of SEBI Circular dated 18.11.93. In view of the above, I have no substantive reason to differ with the findings and the recommendation of the enquiry officer.

4.0 **ORDER**

4.1 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 censure M/s Trust House Securities Ltd. (INB230771930), member National Stock Exchange.

4.2 This order shall come into force with immediate effect.

Place: Mumbai

Date: 24.1.06

Madhukar

Whole Time Member

Securities and Exchange Board of India