

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

AGAINST M/S. CHANDRAKALA MONEY & CAPITAL MANAGEMENT LTD., MEMBER NATIONAL STOCK EXCHANGE, SEBI REGISTRATION NO. INB230607836 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 Chandrakala Money & Capital Management 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 INB230607836.
- 1.2 An Inspection of the Books of Accounts, Documents and other records maintained by the broker was carried out by M/s. B. Purushottam & Co., Chartered Accountants appointed by SEBI for the period 2001-01, 2001-02 and from April, 2002 till 1.10.2002. 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 05.11.2003 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 20.09.04 and sought a personal hearing. The broker was granted hearing before the enquiry officer on 29.11.04. 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 11.04.2005 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 21.04.2005 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 11.5.2005.
- 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 collected the required margins from the clients. The broker submitted that the margin requirements of the investors and trading clients were monitored to ensure that clients running accounts were with the requisite funds lying to their credit at every point of time. Later the margin deposit book was introduced. The broker has submitted that the clients were long-standing clients having sound financial capacity and that they did not execute any order without having sufficient fund to the credit of the clients to cover the risk. The enquiry officer did not find the plea taken by the broker that his clients were long-standing clients having sound financial capacity and that those clients were maintaining credit balances in their account/convincing. The broker has failed to produce any letter from their clients stating that the credit balance lying in their account may be used for the want of margin money. Hence, the enquiry officer found the broker guilty for not collecting requisite margins from clients.
 - b) It has been alleged that the broker failed to monitor sub-brokers activities. The broker submitted that during the inspection period the books of accounts of sub-brokers and the reconciliation had not been done periodically. The enquiry officer found that the broker has at a later stage audited the books of accounts of its sub-brokers, however, in this regard it should take more cautious steps and be vigilant in future for its sub-broker activities.
 - c) With regard to other charges like non-segregation and mis-utilization of clients 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 the discrepancies 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 I find from the above that the violations committed by the brokers are minor procedural lapses, except that the broker did not collect the required margins from the 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 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 Chandrakala Money & Capital Management Ltd. (INB230607836), 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