

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. GDH Securities Pvt. Ltd., sub-broker (Registration No: INS230883535), affiliated to M/s HSE Securities Ltd.

1.0 BACKGROUND

- 1.1 M/s. GDH Securities Pvt. Ltd. is a sub broker having SEBI Registration No. INS230883535 (hereinafter referred to as the sub-broker), affiliated to M/s HSE Securities Ltd (hereinafter referred to as HSESL).
- 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 August 31, 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 September 20, 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 however did not reply to the show cause notice despite the delivery of the same and therefore I am proceeding in the matter on the basis of materials and records available.

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 before the Enquiry Officer. 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 following violations:

- (a) I note that it was alleged that the sub-broker has matched the transactions of its clients from its trading account directly and not routed through the broker and the stock exchange and in such transactions the sub-broker was contracting at rates different from the market rates. It was further alleged that the sub-broker charged GALA from its clients namely Pratap Reddy and Merbanc BSNV Securities Ltd.

The sub-broker before the Enquiry Officer submitted that the transaction relating to the client, Pratap Reddy was not a direct matching transaction but was executed in NSE for the said client after adjusting the brokerage of HSES and the sub-broker. It was further submitted that as the transaction was involving very small quantity and other charges related were more, the sub-broker charged a brokerage reasonable enough and acceptable to the client. With respect to the other client Merbanc BSNV Securities Ltd., it was submitted that the Sub-broker had given it against the payment against 10,000 shares of Goldstone @ Rs.25/ per share as the said client would have defaulted in its payment to HSESL and further the said client had given a consent letter that these shares were its own shares.

I note that the Enquiry Officer in respect of the instance of executing trades for Merbanc BSNV Securities Ltd. did not accept the reply of the sub-broker that the said trade was resorted for assisting the said client to avoid client and rightly concluded that the sub-broker is guilty of violation of the provisions of B(1) of Code of Conduct for sub-broker under Schedule II of Regulation 15 of SEBI (Stock Brokers and Sub-Brokers) Regulations , 1992 which mandates a sub-broker to faithfully execute the orders at the market.

- (b) I further note that it was alleged from the findings of the Inspection that the sub-broker dealt with other HSE Members who were also registered sub-broker of HSESL on principal and agent basis to aid and assist them in evasion of market, exposure limit etc.

The sub-broker in its reply before the Enquiry Officer submitted that it had done these transactions as the entities did not have trading terminal of HSESL. It also submitted that the shares were of the entities and not of their clients and enclosed copies of letters from these entities in this regard. The sub-broker further submitted that it has stopped doing any transaction with any of the HSE Members or sub-brokers.

I note that the Enquiry Officer did not accept the aforesaid reply of the sub-broker and after taking into account the nature of the transactions rightly concluded that by executing such transactions on behalf of the said entities, the sub-broker had assisted these entities to evade margins payable by them.

- 3.2 With regard to the other charges like failure in furnishing the Auditor's Certificate to the exchange on margins and failure in transferring securities and funds to the clients within 48 hours from the date of receipt, I note that 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 M/s. GDH Securities Pvt. Ltd., sub-broker (Registration No: INS230883535), affiliated to M/s HSE Securities 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.

DATE: 24/01/2006

PLACE: MUMBAI

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA