

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 ISE SECURITIES AND SERVICES LTD., MEMBER, NATIONAL STOCK EXCHANGE HAVING SEBI REGISTRATION NO.INB231077737.

1.0 BACKGROUND

- 1.1 M/s. ISE Securities and Services Ltd. (hereinafter referred to as "the broker") is a member of National Stock Exchange ("NSE") registered with SEBI as a stock broker under section 12 of SEBI Act, 1992 with SEBI Registration No.INB231077737.
- 1.2 Inspection of the books of accounts, documents and other records of the broker was carried out by SEBI for the period February 2000 to April 2002 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 May 19, 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 09.06.05 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 14.06.05, 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 04.07.05 and submitted that the few instances of non-compliance were merely technical and operational in nature and there was never any intentional or deliberate non-compliance. The broker further requested for not imposing any penalty taking into consideration the ongoing systematization of its workflow and the fact that the broker had no intent to violate any of the directives, orders and guidelines of SEBI at any time.

3.0 CONSIDERATION OF ISSUES

- 3.1 I have carefully considered the findings of inspection, enquiry and the submissions made by the broker and note significant points as under:

a) **Permitting sub-brokers to trade before obtaining SEBI Registration**

It has been alleged that Shri Surendra Holani was allowed to trade before receiving SEBI registration certificate. The broker replied that sub-brokers of ISS were activated in the system only after they were registered with SEBI. The terminal of Shri Surendra Holani (Regn.No.INS230857216/23-10777) was activated by mistake on January 2, 2001 though he was registered by SEBI on January 4, 2001. This mistake happened due to a manual error while updating in the computer system. It was submitted that apart from this single inadvertent mistake, there has not been any other such instance. In view of the fact that the broker admitted its mistake the EO recommended that the explanation of the broker may be accepted.

b) **Non-issuance of contract notes within 24 hours of execution of trade**

The broker submitted that considering the number of trades done through them which range between 30,000 to 45,000 trades per day and the consequent number of contract notes required to be generated everyday and the number of sub-brokers spread across more than 40 cities to whom the contract notes had to be dispatched, there may have been instances of delay in dispatch of physical contract notes within 24 hours from the date of trading. Processing of contract notes, printing of contract notes, getting them signed by the authorized signatories, collating them and preparing them for dispatch and finally dispatching them by post/courier were all manual tasks, taking up a lot of time. It was, therefore, sometimes not possible for the broker to dispatch the physical contract notes after completing these activities within the stipulated time of 24 hours. However, as the contract notes were being downloaded electronically to the sub-brokers, who were the actual trading participants in the system, on the same day as the day of trading, the relevant provisions have been complied with. It was further submitted that

soon after the introduction of the system of digital certificates in the country, ISS purchased the relevant technology and became one of the first few organizations to implement digitally signed contract notes. The EO accepted the explanation of the broker and recommended that the irregularity may not be viewed seriously.

c) **PAN Nos. not indicated on the contract notes**

The broker submitted that initially PAN numbers were not being printed on the contract notes as the back-office software did not have this feature but later the software was modified and PAN numbers were getting printed. The EO found that the broker has admitted the irregularity. However, in view of the rectification of the deficiency, the EO recommended that the same may be viewed leniently.

d) As regards the other allegations viz. discrepancies in broker-sub broker agreements, violation of the provisions of securities lending scheme, 1997, non-delivery of physical securities and non-transfer of securities to demat account of sub-brokers, short collection of margins, non-maintenance of Base Minimum Capital in prescribed ratio, transferring of BMC to and from the sub-brokers with the Inter-connected Stock Exchange (ISE) to the broker (ISS), non-segregation of sub-brokers money from own money, the EO did not find the broker guilty of any violation.

4.0 Considering the lapses/irregularities committed by the broker, the EO recommended a minor penalty of censure on the broker. On a careful perusal of the charges, findings of inspection and enquiry and the submissions made by the broker and in the absence of any fresh material to rebut the findings of the Enquiry Officer, I have no substantive reason to differ with the findings of the EO. Further, there are no mitigating factors to take a lenient view.

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. ISE Securities and Services Ltd., Member, NSE bearing SEBI Registration No.INB 231077737.

5.2 This order shall come into force with immediate effect.

PLACE: MUMBAI

DATE : 2.2.06

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA