

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

AGAINST M/S. VSE STOCK SERVICES LTD., MEMBER THE STOCK EXCHANGE, MUMBAI, SEBI REGISTRATION NO. INB011076230 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 VSE Stock Services Ltd. (hereinafter referred to as the 'broker') is a member of The Stock Exchange, Mumbai (hereinafter referred to as 'BSE') 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 INB011076230.
- 1.2 An Inspection of the Books of Accounts, Documents and other records maintained by the broker was carried out by SEBI for the period 24.12.99 to 20.8.02. During the Inspection, certain irregularities found to have been committed by the broker were observed.

2.0 APPOINTMENT 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 22.08.2003 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 11.2.2004 was issued to the broker under Regulation 6 (1) of the said regulations. The broker replied to the notice vide its letter dated 08.03.04 and sought a personal hearing. The broker was granted hearing before the enquiry officer on 12.04.04. 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 01.06.2005 recommending a minor penalty of 'censure' on the 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 08.06.2005 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 27.6.2005.
- 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 sub brokers did not deposit the BMC of Rs.4 lacs with Vadodara Stock Exchange (VSE), and yet were allowed to trade which is in violation of SEBI Circular No.SMD-II/POLICY/CIR/37/99 dated 26.11.99. The broker submitted that SEBI vide its Circular No.SEBI/SMD/SC/Cir-24/2003/18/06 dated 18.6.03 had already reduced the BMC requirement to Rs.One lakh for the exchanges having average daily turnover of less than Rs.One crore for the past 3 consecutive months from the date of the said circular. The broker claimed that since VSE fell under this category they were not required to increase the BMC. The broker further stated that for the entire year 2003-04 the turnover of the exchange was Rs.2.59 crores only and therefore it is not required to increase the BMC limit from Rs.2 lakhs to Rs.4 lakhs. However, the enquiry officer did not find the contention of the broker acceptable as the irregularities pertain to the period 24.12.99 to 20.8.02 i.e. long before the circular was issued.
- b) It has also been alleged that the broker had accepted shares instead of cash towards Margin Deposit, BMC and additional capital. The broker submitted that it has relied on SEBI Circular dated 2.7.99 which was in force during the relevant period. Circular dated 7.2.01 which is alleged to have been violated was issued much later. This circular provided that 25% of the non cash component of the deposit to be maintained by the sub broker with the subsidiary/company could also be in the form of FDR of the bank. These FDRs would be discharged in favour of the subsidiary/company and the subsidiary/company would be given a complete unencumbered and unconditional lien on these FDRs. The EO observed that the Circular relied upon by the broker also clearly stated that mark to market margin is to be collected in the form of cash / Bank Guarantee/FDR only. Thus, accepting shares towards BMC/Margin/Additional Capital is in violation of the SEBI Circular in this regard.

- c) With regard to other charges like discrepancies in the issuance of contract notes, failure to pay-out client's securities within 48 hours, non-collection of margin money, increasing exposure limits on acceptance of cheques from sub-brokers without confirmation of the clearance, failure to obtain auditors certificate from sub-brokers with respect to collection of margins, use of BMC deposited with the promoting stock exchange for working out the margin requirements, the EO after considering the explanations of the broker did not find the broker guilty.

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 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 VSE Stock Services (INB011076230), member The Stock Exchange, Mumbai.

5.2 This order shall come into force with immediate effect.

PLACE: MUMBAI

DATE : 2.2.06

MADHUKAR

WHOLE TIME MEMBER

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