

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: DR.T.C.NAIR, WHOLE TIME MEMBER

IN THE MATTER OF

SHREE YADUGIRI INVESTMENTS

MEMBER, BANGALORE STOCK EXCHANGE

SEBI REGISTRATION NO. INB080169014

DATE OF HEARING: 15.05.2006

APPEARANCES:

FOR NOTICEES: Aswatha Narayana MS, Chartered Accountant

Seetharam K, Proprietor

FOR SEBI : Shri P.K.Kuriachan, General Manager

ORDER

UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002.

- 1.1 Shree Yadugiri Investments , a proprietary concern (hereinafter referred to as the 'broker') is a member of the Bangalore Stock Exchange (hereinafter referred to as 'BgSE') 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 INB080169014.
- 1.2 An inspection of the books of accounts, documents and other records maintained by the broker during the period 2000-01, 2001-02 and from April 2002 – till the date of inspection, was carried out by SEBI, on 22.06.2002. During the inspection, certain irregularities found to have been committed by the broker were observed.
- 2.1 An Enquiry Officer (hereinafter referred to as "EO") was appointed vide order dated 18.11.2003 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 Show Cause Notice dated 06.08.2004 was issued to the broker under Regulation 6 (1) of the said regulations along with the findings of the inspection report.
- 2.3 The broker submitted its reply dated 27.08.04 and appeared for personal hearing before the enquiry officer on 22.11.04. The enquiry officer conducted the enquiry in terms of the said regulations and the broker was given a fair and reasonable opportunity to make its submissions.
- 2.4 After considering the reply and the submissions made at the time of personal hearing, the EO submitted his report dated 16.12.04 recommending suspension of registration of the broker for a period of three months.
- 3.1 A copy of the enquiry report was sent to the broker along with a show cause notice dated 21.12.2004, in terms of Regulation 13(2) of the said regulations calling upon it to show cause as to why appropriate penalty including the penalty as recommended by the EO should not be imposed on it. The broker replied to the Show Cause Notice vide letter dated 03.01.2005. The broker was then given an opportunity of personal hearing before me on 15.05.2006. The broker was represented by the persons mentioned on the first page of this order. The broker further handed over written submissions dated 02.05.2006.
- 4.1 I have carefully considered the findings of the inspection, enquiry and the submissions made by the broker and find as under :

4.2 a) Acting as Unregistered Sub-broker

The EO has found that the broker had acted as sub-broker to a member of NSE namely M/s Composite Investments Pvt. Ltd., without obtaining registration from SEBI. I find from the records that the broker has accepted the allegation that he had dealt with M/s Composite Investment Pvt. Ltd., as a sub-broker without being registered with SEBI. This is a clear violation

of Rule 3 of SEBI (Stock Brokers and Sub-Broker) Rules, 1992 read with Section 12 of the SEBI Act, 1992. I also note that the broker has subsequently obtained SEBI Registration and also stopped dealing with M/s Composite Investments Pvt. Ltd. In view of this, severe penalty may not be warranted.

b) **Off the floor transactions were not reported to the Exchange.**

The EO found the broker guilty of the above charge. I note that the broker has accepted that all the transactions put through M/s Composite Investment Pvt. Ltd., were off the floor transactions. Further, in the hearing granted before me, the broker had accepted that the off the floor transactions were not reported to the Exchange. The broker further stated that subsequent to the inspection, they have stopped the same. As per SEBI Circular No.SMDRP/Policy/Cir-32/99 dated 14.09.99, *"All negotiated deals (including cross deals) shall not be permitted in the manner prescribed in circulars mentioned above and all such deals shall be executed only on the screens of the exchanges in the price and order matching mechanism of the exchanges just like any other normal trade"*. The broker had executed off-the-floor transactions which is against the aforesaid provisions. The transactions pertain to the financial year 2000-01 which is after the issuance of the circular dated 14.09.99. The screen based trading was introduced so that there is greater transparency, better price discovery, reduction in transaction cost and benefits the investors. The off the floor transactions tends to avoid transparency requirements, do not contribute to price discovery and some investors do not have the benefit of the best possible price and militate against the basic concept of stock exchanges, which are meant to bring together a large number of buyers and sellers in an open manner. It is clear from the above circular dated 14.09.99 that such transactions are to be executed only on the stock exchange and not off the stock exchange. Hence, I am not inclined to take a lenient view in this regard and hold the broker guilty of violating the above said circular.

c) **Non –collection of margins and non-furnishing of Auditor's Certificate.**

The EO found the broker guilty of the above charge as the broker had categorically accepted the violations without giving any specific reasons for non-compliance of the margin requirements. I find that during the course of hearing, the broker had stated that the balances in cash could be cumulatively taken as margin. The broker further stated that in most cases, the clients were maintaining either credit balance or had left the securities purchased earlier as margin for the minimum margin requirement. The broker further submitted that the value of the transactions were less than the monetary limits prescribed for obtaining margins. I find that the submissions of the broker merits due consideration.

d) **Dealing with unregistered sub-broker and members of other exchanges.**

The EO found the broker guilty dealing with unregistered sub-broker. The broker stated that it had not dealt with unregistered sub-broker but had dealt with a company after perusing their Memorandum of Association which empowered them to carry out transactions in their own right and in their own capacity. The broker stated that it had dealt with them only as a client and all payments were made only to them and received only from them. There has been no financial loss or damage to anyone. I note that in view of the above submissions of the broker, severe penalty may not be warranted.

- 4.3 On a careful consideration of the findings of the EO and the submissions made by the Shree Yadugiri Investments and in the facts and circumstances of the case, a minor penalty of suspension of certificate of registration of the broker for a period of fifteen days would be adequate.
- 5.1 Now, therefore, in exercise of powers conferred upon me in terms of Section 19 of SEBI Act, 1992 read with Regulation 13(4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulation 2002, I hereby impose a minor penalty of suspension of certificate of registration on Shri Yadugiri Investments bearing SEBI Registration No. INB080169014 for a period of fifteen days.
- 5.2 This order will come into force on the expiry of 21 days from the date of this order.

Place: Mumbai

Date: 27.9.2006

T.C.NAIR

Whole Time Member

Securities and Exchange Board of India