

SECURITIES AND EXCHANGE BOARD OF INDIA**CORAM: G.ANANTHARAMAN, WHOLE TIME MEMBER****ORDER AGAINST SHRI SURENDER REDDY TALAKANTI, STOCK BROKER (REGISTRATION NO. INB 060735913) UNDER REGULATION 16(5) OF SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002**

- 1.1 Securities and Exchange Board of India (hereinafter referred as "SEBI") vide order dated March 29, 2004 conducted an inspection of the books of accounts, documents and other records of Shri Surender Reddy Talakanti (hereinafter referred to as the Broker), Member, Hyderabad Stock Exchange Ltd. (hereinafter referred to as HSE), in terms of the provisions of Securities and Exchange Board of India (Stock Broker and Sub – Brokers) Regulations, 1992 (hereinafter referred to as the Broker Regulations). During the course of inspection, it was inter alia found that the Broker had not taken adequate steps to resolve the investor complaints within one month from the date of receipt of the same, as required under Rule 4(e) of Securities and Exchange Board of India (Stock Broker and Sub – Brokers) Rules, 1992 (hereinafter referred to as the said Rules), as existed at the relevant time. Though the provisions of the said Rules were rescinded with effect from September 7, 2006, the same had been simultaneously incorporated in the Broker Regulations. It was also found that HSE had declared the Broker as a defaulter and that it had subsequently auctioned the membership card of the Broker in terms of the resolution passed by its Governing Board in its meeting held on November 22, 2004.
- 2.1 In the facts and circumstances, SEBI vide order dated October 12, 2006 appointed an Officer (hereinafter referred to as the said Officer) under regulation 16(1) Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as Enquiry Regulations) to enquire into the alleged violations committed by the Broker. Accordingly, a notice dated February 28, 2007 was issued to the Broker under Regulation 16(2) of the Enquiry Regulations. Though, the aforesaid notice was served on the Broker through HSE (confirmed by HSE vide letter dated March 5, 2007), the Broker failed to file any written submissions. As the Broker failed to respond to the aforesaid notice, the Officer proceeded with the matter on the basis of the materials available on record and vide report dated March 28, 2007 recommended to cancel the certificate of registration of the Broker.
- 2.2 Pursuant to the said report, the Broker vide letter dated April 12, 2007 inter alia stated that he had wound up his stock broking business and that his membership card was auctioned by HSE in the year 2004. He also stated that the auction of his membership card had fetched Rs. 3.51 lacs and the said amount together with the Base Minimum Capital (BMC) was distributed by HSE to all the investors on proportionate basis. According to him, the investors had accepted the said distributed amount and that they had issued clearance letters to HSE.
- 3.1 I have perused the Report submitted by the said Officer, the letter of the Broker dated April 12, 2007 and other materials available on record. I note that in terms of Rule 4(e) of the said Rules, a stock broker shall inter alia take adequate steps for redressal of grievances of the investors within one month of the date of receipt of the complaint and keep informed SEBI about the number, nature and other particulars of the said complaints. I note that the Broker had not redressed the grievances of the investors, as specified in the said Rules. The details of complaints received by the Broker pending beyond the stipulated time are as follows:

Name of the Complainant	First Complaint received on	Nature of the complaint/claim amount
Shri. P. Bhujanga Rao	November 24, 2003.	Non delivery of scrips, client deposit not refunded, etc., totaling Rs. Rs. 77000
Shri. V.N.Chary	April 14, 2004.	Non delivery of shares and sale proceeds over Rs. 7 Lakhs
Shri. M.Gopalakrishna	July 19, 2004.	Non delivery of shares worth Rs. 26040/-
Shri. C.Krupananda reddy	September 20, 2002.	Rs. 85000

- 3.2 I find from the Report submitted by the said Officer that the said complaints were 3 to 5 years old. The Broker in its letter dated April 12, 2007 stated that he was not in a good financial condition and therefore could not clear the investors claims immediately. He further stated that he had co-operated with HSE in auctioning his membership card and in the distribution of proceeds including the BMC to the investors on proportionate basis. The failure of the Broker to redress the grievances of the investors as specified in the said Rules and in the Broker Regulations has to be viewed seriously and the said failure warrants a penalty under the provisions of the Enquiry Regulations.

3.3 Further, I note from the letters dated September 22, 2004 (of HSE) and April 12, 2007 (of the Broker) to SEBI, that the Broker was declared as defaulter with effect from September 16, 2004 and that his membership card was auctioned by HSE in the year 2004 itself. In terms of the provisions of Rule 4 of the said Rules, a stock broker was required to be a member of any stock exchange for the purpose of grant of certificate of registration. In the present matter, I note that the Broker failed to comply with the said primary condition of registration. Further, he had also failed to redress the grievances of the investors as required under the provisions of the said Rules. Incidentally, the recognition granted to HSE {under the provisions of Securities Contracts (Regulation) Act, 1956} was withdrawn by the Government of India, vide notification dated September 19, 2007, as it had failed to demutualise within the stipulated time. Though, HSE had challenged the proceedings of withdrawal of recognition by way of a writ petition before the Hon'ble High Court of Andhra Pradesh, the Hon'ble Court dismissed the said petition, vide order dated January 17, 2008. I do not find any reason to disagree with the recommendation of the Officer. In the facts and circumstances, it is fairly established that the Broker has violated the primary conditions for the grant of certificate of registration and he shall be liable for a major penalty as ordered herein under.

4.1 In view of the foregoing, I, in exercise of the powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 and read with regulation 16 (5) of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 hereby impose a major penalty of cancellation of the certificate of registration of the stock broker, Shri Surender Reddy Talakanti (INB 060735913).

4.2 The above order shall come into force with immediate effect.

Place: Mumbai
Date: January 23, 2008

G.ANANTHARAMAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA