

SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: SHRI G. ANANTHARAMAN, WHOLE TIME MEMBER

**ORDER AGAINST M/S CHHEDA SHARES & SECURITIES, SUB BROKER
UNDER REGULATION 13(4) OF SECURITIES AND EXCHANGE BOARD OF
INDIA (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER
AND IMPOSING PENALTY) REGULATIONS, 2002**

1.1 M/s Chheda Shares & Securities (for short, sub-broker) is registered with the Securities and Exchange Board of India (hereinafter referred to as 'SEBI') as a sub-broker affiliated to M/s Manipal Investments Pvt. Ltd. {Member, National Stock Exchange of India Limited. (NSE)}. SEBI conducted an inspection of the books of accounts, documents and other records maintained by the sub-broker for the year 2001-2002 and observed certain deficiencies/irregularities. Some of the deficiencies/irregularities found to have been committed by the sub-broker are as follows:

- i) Failure to produce sauda book, client ledger, confirmation memos and duplicate copies of confirmation memos before the inspecting authority.
- ii) Failure to enter into agreement with the clients.
- iii) Improper client registration forms
- iv) Dealing as an unregistered sub broker.
- v) Non segregation of own funds from the client's funds

1.2 Pursuant to the comments of the sub broker to the said inspection report,

SEBI, vide order dated March 1, 2004 read with the subsequent order dated July 15, 2004 appointed an Enquiry Officer, under the provisions of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (for short, Enquiry Regulations) to enquire into the alleged deficiencies / irregularities committed by the sub broker and which were observed during the course of inspection. The Enquiry Officer conducted the proceedings in terms of the Enquiry Regulations and vide report dated December 28, 2004 recommended for the cancellation of the certificate of registration of the sub broker.

1.3 Pursuant to the submission of the Enquiry Report, a notice dated January 18, 2005 was issued to the sub broker by SEBI, calling upon it to show cause as to why appropriate penalty including the penalty as recommended by the Enquiry Officer should not be imposed on it. Though the said notice was acknowledged by the sub broker, no reply was received by SEBI from it, so far. SEBI granted an opportunity of hearing to the sub broker on November 30, 2006. Shri Nimesh Chheda, partner of the sub broker appeared before me and submitted that there was no business for the sub broker since 2002 and that it had applied for the surrender of its certificate of registration. He had not disputed the findings of the inspecting team.

2.1 I have considered the Enquiry Report, the show cause notice issued to the sub broker, the oral submissions made on behalf of the sub broker and other materials available on record. I note that the sub broker had not produced books of accounts and other records such as sauda book, client ledgers and the confirmation notes before the inspecting authority.

I note that the sub broker had given an explanation before the Enquiry Officer, that it could not produce the said documents as the software was not operational due to its failure to pay the maintenance charges. In terms of Regulations 15 read with Regulations 17 of Securities and Exchange Board of India (Stock Brokers and Sub – Brokers) Regulations, 1992 (hereinafter referred to as Broker Regulations), it is the duty of the sub broker to maintain inter alia the aforesaid documents and that he shall preserve the said documents for a minimum period of 5 years. I note that SEBI conducted the inspection during the period May 2003 – June 2003 and the period covered under the inspection was 2001-2002. Thus, the sub broker had failed to maintain and preserve the said documents even for two years. Therefore, it is fairly established that the sub broker violated the provisions of Regulations 15, 17 and 18 of the Broker Regulations. Admittedly, the sub broker had not entered into agreements as required under the SEBI circular dated May 21, 1997. The sub broker stated that most of its clients were family members or friends. The said explanation can not substitute the requirements specified under the said circular dated May 21, 1997. Further, the sub broker had also not maintained separate bank accounts for itself and the clients. Therefore, it is established that the sub broker has violated the provisions of the circular dated May 21, 1997.

- 2.2 I note that the sub broker had dealt as an unregistered sub broker of Precious Stock Broking Services Ltd. (Stock Broker). The said fact is not disputed. The sub broker had submitted before the Enquiry Officer that it had dealt through the aforesaid stock broker with an intention to get it registered with SEBI. According to the sub broker, due to certain circumstances such as the bad shape of the securities market, its

decision to close down the operations etc., it had decided not to apply for the grant of certificate of registration, through the said stock broker. The trades of the sub broker through the stock broker viz. Precious Stock Broking Services Ltd. was clearly in violation of the provisions of section 12 of Securities and Exchange Board of India Act, 1992 read with the then existing Rule 3 of Securities and Exchange Board of India (Stock Brokers and Sub – Brokers) Rules, 1992 and the SEBI circular dated May 21, 1997.

- 2.3 Thus, it is reasonably established that the sub broker had violated the provisions of the Act read with the provisions of the Broker Regulations and the SEBI Circulars, as specified. As an intermediary operating in the securities market, the sub - broker is duty bound to comply with the statutory provisions including various circulars issued by SEBI from time to time. He has a duty towards the securities market. The various requirements under the Act and Regulations in respect of an intermediary are conceived in the interests of investor protection and further to ensure that the business and conduct of the intermediaries are undertaken on the basis of sound business principle. An intermediary is inter alia required to maintain high standards of promptitude and fairness while conducting his business. Taking into account, the circumstances of the present case, the non compliance of statutory requirements on the part of the part of the sub - broker calls for a penalty as ordered hereinunder. The sub broker submitted before me that it had already surrendered its certificate of registration to SEBI. However, I note that the said application for surrender was returned back to NSE by SEBI vide letter dated April 10, 2003, for want of SEBI fees.

3.1 In view of the foregoing, I, in exercise of the powers conferred vide regulation 13(4) of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, hereby impose a minor penalty of censure on the sub broker viz. M/s Chheda Shares and Securities (registration number INS 230534328).

G. ANANTHARAMAN

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA

Place: Mumbai

Date: February 20, 2008