

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 28(2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 AGAINST INTERFACE BROKERAGE AND RESEARCH LIMITED, MEMBER, AHMEDABAD STOCK EXCHANGE LIMITED

1. An inspection of the books of accounts and other records and documents of the stock broker, namely, Interface Brokerage and Research Limited (hereinafter referred to as the stock broker), Registration No. INB021035432, Member, Ahmedabad Stock Exchange Limited (hereinafter referred to as ASE) was conducted by the Securities and Exchange Board of India (hereinafter referred to as SEBI) on January 7 and 8, 2003 in respect of its securities market activities for the year 2001-2002 to the date of inspection. On the basis of the findings of the aforesaid inspection, SEBI had initiated enquiry proceedings against the said stock broker under the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (since repealed) and the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 (hereinafter referred to as the Intermediaries Regulations) by appointing an Enquiry Officer/Designated Authority (hereinafter referred to as the Enquiry Officer), vide Order dated December 16, 2003 read with subsequent Orders in that regard. The Enquiry Officer, after conducting the enquiry, had submitted the Report dated March 5, 2010, wherein he had recommended that the stock broker be issued a "*warning*" as provided for under Regulation 27(vi) of the Intermediaries Regulations. Thereafter, a notice dated March 25, 2010 was sent to the stock broker, directing it to show cause as to why action as recommended by the Enquiry Officer should not be taken against it. As no reply was received from

the stock broker within the time stipulated in the aforesaid notice, SEBI provided another opportunity to the stock broker to submit its reply, vide letter dated April 20, 2010. Thereafter, the stock broker, vide letter dated April 26, 2010 had sent its reply to the show cause notice dated March 25, 2010 *inter alia* stating “.....we request your goodself to pursue on our behalf the Whole Time Member to accept the recommendation made by you and if same is found agreeable to accept to the Whole Time Member, considering the facts and circumstances of the matter under enquiry, the said Authority be requested to pass the Order, even without affording us an opportunity of hearing in that regard. The order passed by the Whole Time Member as recommended by your goodself of issuing “Warning” or such other lesser penalty or complete exoneration will be honoured by us in future”. In view of the same, I do not consider it necessary to afford an opportunity of hearing to the stock broker and proceed further in the matter on the basis of the material available on record.

2. I have considered the findings of the Enquiry Officer, the submissions of the stock broker, made vide letter dated April 26, 2010 and other material available on record. The Enquiry Officer has either exonerated or afforded benefit of doubt to the stock broker in respect of the charges, namely, irregularities in the issue of contract notes and dealing with M/s. Innovative Securities, an unregistered sub-broker.

3. In respect of the charge of dealing as an unregistered sub-broker, the Enquiry officer has found that the reference to Interface Capital Markets Private Limited has no relevance to the present proceedings as the entity involved herein was the stock broker, Interface Brokerage and Research Limited. Further, the stock broker was found to have contravened the provisions of the SEBI Circulars dated March 14, 1996, January 16, 1998 and January 15, 2001, for having dealt with Khandwala Integrated Financial Services Private Limited through Pinnacle Finstock Limited, as a sub-broker, without being registered with SEBI. I note that the Enquiry Officer in his Report had observed that the stock broker had admitted that it had carried out trades for its clients through Pinnacle Finstock Limited on

the Bombay Stock Exchange Limited (BSE). In terms of the Circular dated March 14, 1996, SEBI informed the stock exchanges that those who were already in the business of sub-broking and had applied for registration before May 21, 1992 are being advised to re-submit their applications complete in all respects within two months failing which it shall be construed that they are acting as sub-brokers without holding certificates of registration in violation of section 12(1) of Securities and Exchange Board of India Act, 1992 (the SEBI Act) and that the applicants who had applied after May 21, 1992, are being advised to stop the business of sub-broking immediately which can be re-started after they are duly registered with SEBI. In terms of the SEBI Circular dated January 16, 1998, members of the stock exchanges who are acting as sub-brokers through the members of other exchanges were advised to obtain a Certificate of Registration from SEBI to act as a sub-broker under the Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Rules, 1992 and Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992. Further, in terms of SEBI Circular dated January 15, 2001, stock exchanges were advised to inform all the stock brokers that their sub-brokers are permitted to start business only after clearance and receipt of registration certificate from SEBI and that if any person contravenes or attempts to contravene or abets the contravention of the above said rule, shall be punishable under section 24(1) of the SEBI Act. Thus, the statutory requirement enshrined in all the aforesaid circulars was that the sub-brokers shall deal in the securities market only after the receipt of certificate of registration from SEBI. The stock broker has admitted that it had dealt for its clients through Pinnacle Finstock Limited on BSE. The stock broker being a member of ASE had dealt for its clients through Pinnacle Finstock Limited on the floor of BSE, without obtaining a certificate of registration from SEBI. I further note that the stock broker has not challenged the findings of the Enquiry Officer in this regard. Therefore, in view of the foregoing, I conclude that the stock broker has contravened the SEBI Circulars dated March 14, 1996, January 16, 1998 and January 15, 2001. The Enquiry Officer has recommended that the stock broker be warned. The stock broker in its letter dated April 26, 2010 *inter alia* stated that it would honour the

order of "Warning" or such other lesser penalty or complete exoneration in future. In the facts and circumstances of the matter, I am of the view that the recommended penalty would be reasonable in the interest of justice. The present enquiry proceedings is therefore disposed of as ordered hereinbelow.

4. In view of the foregoing, I, in exercise of powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28(2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby warn the stock broker, Interface Brokerage and Research Limited (Registration No. INB021035432), Member, Ahmedabad Stock Exchange Limited, for the deviations observed in this Order. The said stock broker shall ensure compliance with all rules, regulations and other laws that govern its conduct in the securities market.

DR. K.M. ABRAHAM
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

PLACE: MUMBAI
DATE: JUNE 14, 2010