

**BEFORE THE ADJUDICATING OFFICER**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**  
**[ADJUDICATION ORDER NO.: - SD/AO/11/2011]**

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**UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA  
ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING  
INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER)  
RULES, 1995**

**Against**

**M/s. Indiabulls Securities Ltd.**

**PAN : AAACO0870B**

**In the matter of  
IFSL Limited**

**BRIEF FACTS OF THE CASE:**

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') had initiated investigation in the scrip of M/s. IFSL Limited (hereinafter referred to as 'IFSL'), a public company mainly traded on the Bombay Stock Exchange (hereinafter referred to as the 'BSE'), to examine the possibility of violation of provisions of various SEBI Regulations in respect of trading in the scrip for the period from between March 8, 2005 and September 16, 2005 (hereinafter referred to as the 'Investigation Period'). The price of the scrip witnessed huge spurt in volumes and wide fluctuations in the price during the Investigation Period.
  
2. The role of the brokers and their clients who had traded in the scrip of IFSL were scrutinized. It was alleged that certain entities transacted in the shares of IFSL in such a manner that led to creation of artificial volumes in the scrip and was designed to create a false market and

distorted market equilibrium leading to spurt in the price of the scrip which did not have any correlation with the performance of the company.

3. In relation to the dealings in scrip of IFSL, BSE conducted an inspection of its member-broker, M/s Indiabulls Securities Ltd. (hereinafter referred to as “**the Noticee**”), to verify the details of few of the clients and their transactions. BSE found certain irregularities during the said inspection and intimated the same to SEBI.
4. Based on the said inspection report it was alleged that one the Noticee, while registering and trading for its clients Deepak Narvekar, Umesh B Choukekar, Ganesh Shatrugan Raut, Deepak S Todkar and M/s New Leader Trading Co. Pvt. Ltd. violated the provisions of Regulation 7 read with clauses A(2) and A(5) of the Code of conduct as specified in the Schedule II of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as the “**Broker Regulations**”) and was therefore, liable for monetary penalty under Section 15HB of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as “**SEBI Act**”).

**APPOINTMENT OF ADJUDICATING OFFICER:**

5. The undersigned was appointed as Adjudicating Officer vide order dated October 17, 2008 under section 15 I of SEBI Act read with rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as ‘**Rules**’) to inquire into and adjudge the aforesaid alleged violations committed by the Noticee.

**SHOW CAUSE NOTICE/REPLY/PERSONAL HEARING:**

6. Accordingly, a notice to show cause dated May 25, 2009 under Rule 4 (1) of the Rules was issued to the Noticee asking it to show cause as to why an enquiry should not be held against it in terms of Section 15I of the SEBI Act and penalty be not imposed under Section 15HB of the SEBI Act for the alleged violation by it of the abovementioned provisions of the Broker Regulations.

7. In response to the said notice to show cause (hereinafter referred to as the 'SCN'), the Noticee submitted a detailed reply dated July 27, 2009.
8. In the interest of natural justice and in order to conduct an inquiry as per rule 4 (3) of the Rules, the Noticee was granted as opportunity of personal hearing before me on October 26, 2009. The Noticee attended the said hearing through its authorized representatives (hereinafter referred to as the 'AR') and submitted that it needs time to decide on the issue of opting for consent proceeding. Subsequently, the Noticee by letter dated October 30, 2009 intimated its desire to proceed with the matter on the basis of merit. Another hearing opportunity was given to the Noticee on February 16, 2010. The Noticee submitted an additional submission dated March 4, 2010. All the submissions made by the Noticee in its defense have been considered and would be discussed during the course of order, as required.

#### **CONSIDERATION OF ISSUES AND FINDINGS:**

9. I have carefully perused the charges against the Noticee mentioned in the SCN, the submissions of the Noticee and the documents available on record. The issues that arise for consideration in the present case are stated and determined, one by one, as follows:
  - **Whether the Noticee has violated Regulation 7 read with clauses A(2) and A(5) of the Code of conduct as specified in the schedule II of the Broker Regulations?**
10. Before proceeding to decide the above issue, it is important to have a look at the abovementioned provisions as they existed at the relevant time, which interalia are reproduced below.

***“Stock brokers to abide by Code of Conduct.***

***7. The stock broker holding a certificate shall at all times abide by the Code of Conduct as specified in Schedule II.***

*SCHEDULE II*

## **CODE OF CONDUCT FOR STOCK BROKERS**

### **A. General.**

(1) ...

(2) *Exercise of due skill and care : A stock-broker shall act with due skill, care and diligence in the conduct of all his business.*

(3) ...

(4)...

(5) *Compliance with statutory requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.”*

11. As per the findings of the said Inspection Report (hereinafter referred to as the 'Report'), it was observed that:
- a. For the clients Deepak Narvekar, Umesh B Choukekar, Ganesh Shatrugan Raut and Deepak S Todkar, the Noticee had failed to obtain the signature of the introducer Mr. Kavi Kumar, who was also the compliance officer of the Noticee.
  - b. For the Client New Leader Trading Co. Pvt. Ltd., the Noticee had failed to:
  - c. Specify the Uniform Client Code on the KYC.
  - d. Obtain the signature of the Introducer
  - e. Obtain the proof of the Depository account details.
  - f. The Specimen signature of the authorized person, name and the corresponding signature do not belong to the same person.
  - g. Obtain the copies of the balance sheet for the last two financial years.
  - h. Obtain the photographs of the Promoters/Whole time directors.
  - i. Obtain the copies of the shareholding of the Promoters/Whole time director.
12. In response of the said allegations, the Noticee submitted that:

- a. As per the market practice, the Noticee used to mention the employee number of the introducer and used to verify the same with the employee. Now it has started obtaining the signatures of the introducer as well.
  - b. With reference to the client M/s New Leader Trading Company Pvt. Ltd., the UCC was mentioned on the KYC kit and not on the form. Now the Noticee has started mentioning UCC on the KYC as well. Further, As the depository account of the client was opened after the trading account, information could not be obtained at the time of account opening. As regards the balance sheet the Noticee submitted that the company was newly incorporated and hence the requirement of previous two years balance sheet cannot be fulfilled. Moreover, The photographs of the directors have been obtained and were slightly misplaced because of faulty glue. However, the photographs have been present on the kit. Other documents have also been submitted to BSE and were there in the kit.
13. I have considered the submissions made by the noticee and the material available on record. I find that at the relevant time there was no specific stipulation to write the UCC on the KYC forms. Further, the Noticee has submitted that the introducer was its employee and it seems that the introducers were well known to the Noticee. The requirement of filling in the details of introducer is made so that in case the details of client are to be known or some linkage is to be drawn the authorities can approach the introducer. Even though the introducer may be a employee of the company, the signature should have been obtained. The Noticee, by not taking the signature of the introducer the Noticee has failed to comply with the requirement. However, since the Noticee was able to produce documents to show that the error was inadvertent and that the introducer was known, the defense of the noticee is accepted. However, the Noticee should ensure in future that such errors are not repeated. As regards the client New Leader Trading Company Pvt. Ltd. although the Noticee has submitted all the documents, but the basic problem arose due to problematic record maintenance of the Noticee. Further some important documents such as the shareholding pattern were filed without

a any date and seemed old as it was conflicting with the registration details. Such errors are unacceptable by a specialized intermediary like a Broker. Although the shareholding pattern could have been submitted erroneously by the client, the Noticee should carefully examine the same. An erroneous shareholding statement fails to disclose the present holding of the company and thus real beneficiaries. The Noticee should ensure that such errors are not repeated else this practice may snowball into bigger problems. However, since this is the only lapse that is observed and considering the Noticee's assurance of being more cautious, the mistake cannot be termed as grave.

14. In view of the abovementioned observations and findings and all the material on record, I am of the opinion that the allegation of violation of Clauses A(2) & A(5) of the Code of Conduct for Stock Brokers as specified in Schedule II under Regulation 7 of the Stock Brokers Regulations is not proved. However, there have minor flaws in the manner of Noticee's registration and dealing process, which have to be rectified. The Noticee has ensured that the lapses are not recurring and are already rectified. Further, all efforts have been taken to avoid such lapses in future. The Noticee also ensured that the requirement of due diligence is to be complied with in letter as well as in spirit.

**ORDER**

15. In view of the foregoing, the alleged violation of the provisions of Stock Broker Regulations by the Noticee, as specified in the SCN dated May 25, 2009 does not stand established and the matter is, accordingly, disposed of.
16. In terms of the Rule 6 of the Adjudicating Rules, copies of this order are sent to the Noticee and also to Securities and Exchange Board of India.

**Date: January 13, 2011**  
**Place: Mumbai**

**SANDEEP DEORE**  
**ADJUDICATING OFFICER**