WTM/GM/SRO/SRO/12329/2021-22

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Section 12 (3) of SEBI Act, 1992 read with Regulation 27 of SEBI (Intermediaries) Regulations, 2008 in the matter of S.S. Securities.

NOTICEE	SEBI REGISTRATION NO.
S.S. Securities	**NSE INS23A411712/23-08061**

BACKGROUND

1. **S.S. Securities** ('Noticee'/ 'the sub-broker') is a sub-broker registered with the Securities and Exchange Board of India (SEBI) with SEBI registration no. NSE INS23A411712/23-08061. The Noticee is affiliated to Steel City Securities Ltd, Member, National Stock Exchange Ltd. (NSE) and BSE Ltd. (BSE).

2. During an inspection of the books and accounts of the Noticee, it was *inter alia* observed that the sub-broker was dealing directly with clients of the stock broker by purchasing and selling securities and thereafter settling the transactions with the clients by direct receipt and delivery of securities and funds from/ to them. In view of the same, it was alleged that the Noticee was in violation of the following provisions:

a. SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 ("**Circular**") read with Regulation 2(gc) of SEBI (Stock Broker & Sub-Brokers) Regulations, 1992 ("**Broker Regulations**") prescribing scope of activity of a sub-broker read with clause A(1), B(1) and D(1) of the Code of Conduct prescribed for sub-brokers in Schedule II under Regulation 15(1)(b) of Broker Regulations,

b. Section 12 of SEBI Act, 1992 read with Rule 8 of Securities Contracts (Regulation) Rules, 1957 ("**SCR Rules**"/ **"SCRR"**), and

c. Regulation 4(1) read with Regulation 2(1)(c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations 2003 ("**PFUTP Regulations**") read with Clause D(4) of the Code of Conduct prescribed for sub-brokers in Schedule II under Regulation 15(1)(b) of Broker Regulations, 1992.

3. Accordingly, SEBI initiated enquiry proceedings against the Noticee under Chapter V of the SEBI (Intermediaries) Regulations, 2008 ("Intermediaries Regulations") and appointed a Designated Authority ("DA") to enquire into whether the alleged violation as cited above by the Noticee warranted cancellation or suspension of the certificate of registration granted by SEBI or any other action provided in Chapter V of the Intermediaries Regulations.

4. On completion of the proceedings, the DA submitted the report on March 30, 2020 (DA's Report) recommending that the Noticee's certificate of registration as a sub-broker be cancelled. Pursuant to this, a post enquiry show cause notice (SCN) dated July 03, 2020 was issued to the Noticee, under Regulation 27 of Intermediaries

Regulations, 2008, to show cause as to why action, as recommended by the DA or any other action as considered appropriate by the Designated Member, should not be taken against the Noticee. A copy of the DA's Report was also forwarded to the Noticee along with an advice to file reply, if any, within 21 days from the date of receipt of the notice. The Noticee did not file any reply to this notice. Thereafter, an opportunity of personal hearing was granted to the Noticee on February 10, 2021, and details of the same were also published in *The Times of India* and *Supadha* (Telegu) on February 3, 2021. The Noticee neither appeared for the hearing, nor did it file any reply in the matter. In view of the same, I am compelled to proceed in the matter, *ex-parte.*

CONSIDERATION

5. I have considered the Report submitted by the DA, the Post-Enquiry SCN issued to the Noticee, written submissions made by the Noticee at the time of the inspection and other material available on record.

6. The scope of the present proceedings before me is restricted to the enquiry initiated against the Noticee under Chapter V of the Intermediaries Regulations, 2008 to determine whether the following alleged violations by the Noticee warrants cancellation or suspension of the certificate of registration granted by SEBI or any other action provided under Regulation 27 of the Intermediaries Regulation as it stood at relevant time, prior to its amendment vide SEBI (Intermediaries) (Amendment) Regulations, 2021, w.e.f. January 21, 2021:

   a. The Noticee indulged in direct dealing with the clients/investors by engaging in purchase and sale of securities and settling the transactions with them by

direct receipt and delivery of securities and funds. Thus, it is alleged that the Noticee is in violation of the Circular read with Regulation 2(gc) of the Broker Regulations prescribing scope of activity of a sub-broker read with clause A(1), B(1) and D(1) of the Code of Conduct prescribed for sub-brokers in Schedule II under Regulation 15(1)(b) of Broker Regulations.

b. The Noticee settled transactions with clients directly without being registered as a stock-broker. Thus, it is alleged that the Noticee violated Section 12 of the SEBI Act read with Rule 8 of SCR Rules and Regulation 2(gc) of Broker Regulations.

c. The Noticee executed trades on behalf of clients from its own account and supressed information regarding the same from the stock broker as well as from the trading system. Thus, it is alleged that the Noticee acted fraudulently and violated Regulation 4(1) read with Regulation 2(1)(c) of PFUTP Regulations read with Clause D(4) of Code of Conduct prescribed for sub-brokers in Schedule II under Regulation 15(1)(b) of Broker Regulations.

7. Before moving forward, it will be appropriate to refer to the relevant provisions of the SEBI Act, PFUTP Regulations, SCRR, Broker Regulations alleged to have been violated by the Noticee:

SEBI Act

Registration of stock brokers, sub-brokers, share transfer agents, etc.

12.(1)…

(3) The Board may, by order, suspend or cancel a certificate of registration in such manner as may be determined by regulations:

Provided that no order under this sub-section shall be made unless the person concerned has been given a reasonable opportunity of being heard.

Broker Regulations

2(gc). "sub-broker" means any person not being a member of stock exchange who acts on behalf of a stock broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such stock brokers.

General Obligations and Inspection

15. (1) The sub-broker shall

(a) …;

(b) abide by the Code of Conduct specified in Schedule II;

CODE OF CONDUCT FOR SUB-BROKERS

A. GENERAL

(1) INTEGRITY: A sub-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all investment business.

B. DUTY TO THE INVESTOR

(1) EXECUTION OF ORDERS: A sub-broker, in his dealings with the clients and the general investing public, shall faithfully execute the orders for buying and selling of securities

at the best available market price. A sub-broker shall promptly inform his client about the execution or non-execution of an order.

D. SUB-BROKERS VIS-A-VIS REGULATORY AUTHORITIES.

(1) GENERAL CONDUCT: A sub-broker shall not indulge in dishonourable, disgraceful or disorderly or improper conduct on the stock exchange nor shall he wilfully obstruct the business of the stock exchange. He shall comply with the rules, bye-laws and regulations of the stock exchange.

(2)…

(4) MANIPULATION: A sub-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

PFUTP Regulations

2.(1)(c). fraud" includes any act, expression, omission or concealment committed whether in a deceitful manner or not by a person or by any other person with his connivance or by his agent while dealing in securities in order to induce another person or his agent to deal in securities, whether or not there is any wrongful gain or avoidance of any loss, and shall also include—

(1) a knowing misrepresentation of the truth or concealment of material fact in order that another person may act to his detriment;

(2) a suggestion as to a fact which is not true by one who does not believe it to be true;

(3) an active concealment of a fact by a person having knowledge or belief of the fact;

(4) a promise made without any intention of performing it;

(5) a representation made in a reckless and careless manner whether it be true or false;

(6) any such act or omission as any other law specifically declares to be fraudulent,

(7) deceptive behaviour by a person depriving another of informed consent or full participation,

(8) a false statement made without reasonable ground for believing it to be true.

(9) the act of an issuer of securities giving out misinformation that affects the market price of the security, resulting in investors being effectively misled even though they did not rely on the statement itself or anything derived from it other than the market price.

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation3, no person shall indulge in a fraudulent or an unfair trade practice in securities.

SCRR

Qualifications for membership of a recognised stock exchange.

8. The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:

(1) No person shall be eligible to be elected as a member if—

(a) he is less than twenty-one years of age;

(b) he is not a citizen of India; provided that the governing body may in suitable cases relax this condition with the prior approval of the Securities and Exchange Board of India;

(c) he has been adjudged bankrupt or a receiving order in bankruptcy has been made against him or he has been proved to be insolvent even though he has obtained his final discharge;

(d) he has compounded with his creditors unless he has paid sixteen annas in the rupee;

(e) he has been convicted of an offence involving fraud or dishonesty;

(f) he is engaged as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability unless he undertakes on admission to sever his connection with such business :

Provided that no member may conduct business in commodity derivatives, except by setting up a separate company which shall comply with the regulatory requirements, such as, networth, capital adequacy, margins and exposure norms as may be specified by the Forward Market Commission, from time to time:

Provided further that nothing herein shall be applicable to any corporations, bodies corporate, companies or institutions referred to in items (a) to (k) of the proviso to sub-rule (4).

*(g) ****

(h) he has been at any time expelled or declared a defaulter by any other stock exchange;

(i) he has been previously refused admission to membership unless a period of one year has elapsed since the date of such rejection.

ISSUES FOR CONSIDERATION

Direct dealing with clients of the stock broker in purchase and sale of securities and settling the transactions with them by direct receipt and delivery of securities and funds.

8. During the inspection, it was observed that there were several off market transactions (debit and credit) in the demat account of Ms. D. Satya Sarada, the proprietrix of the Noticee. These off market transactions were either preceded or followed by a market transaction of the same scrip and quantity as that of the off-market transaction, done by the Noticee through the affiliated broker. Wherever the investors/clients desired to sell securities in the market, Noticee would take the securities from them in the aforesaid demat account through off market transfer. Thereafter, the securities would be sold in the market through the affiliated broker either the same day or the next day under the client code of the Noticee. Thus, such trade would be treated as pro-trade on the exchange system. After the trade, the Noticee would issue pay-out cheques to the seller from its own bank account. In the case of investors/clients who desired to buy securities, the Noticee would purchase the securities from the market through the affiliated broker under its own client code. Subsequently, the Noticee would transfer the shares purchased to the demat account of the client through off market transfer from its own demat account. In this case, the Noticee would receive the payment through cheques from the buyer, in its own name. It was further observed that for such transactions, the Noticee also charged brokerage from the clients as the value of actual receipt was greater than the total value of purchase transactions and similarly, the actual value

of payment made by the Noticee was less than the actual value of such sale transactions. Summary of sample instances of such transactions noticed during the inspection are as follows:

Table-I

Period of scrutiny	**April 1, 2013-February 12, 2014**
No. of Instances reported	60 Transactions
No. of Clients Involved	30
Volume of such transaction	Rs. 50 Lacs (apprx)
Brokerage earned	Rs. 8.40 lacs

9. Thus, it was seen from these transactions that the Noticee was engaging in direct dealing in securities with clients either by purchase or sale in the market and settling the transactions directly with the entities, some of whom were registered with the affiliated stock broker and some of whom were not even registered as clients.

10. The Noticee in its reply dated March 20, 2014 to the findings of Inspection Report accepted that it did a few buying and selling transactions for its family members and family friends for the purpose of their investment only. The Noticee stated that this was because few accounts had become inactive at stock broker's end and the remaining clients did not have trading accounts at the time the transactions were carried out.

11. In view of the above, I find that the Noticee has admitted that it indulged in direct dealing with clients/investors by engaging in purchase and sale of securities and settling the transactions with them by direct receipt and delivery of securities and

also direct receipt and payment of funds. Hence, the actions of the Noticee did not meet the standards of integrity and fairness expected of a sub-broker. As noted above, the Noticee executed orders in its own client code rather than that of the clients'. Thus, the conduct of the Noticee was improper. Thereby, the Noticee has contravened the provisions the Circular read with Regulation 2(gc) of the Broker Regulations prescribing scope of activity of a sub-broker read with clause A(1), B(1) and D(1) of the Code of Conduct prescribed for sub-brokers in Schedule II under Regulation 15(1)(b) of the Broker Regulations.

Direct execution of transactions and settlement thereof for clients/ investors without being registered as a stock broker.

12. As noted in the preceding paragraphs, the Noticee directly dealt with clients who had trading accounts with the stock broker but their accounts had become inactive. By executing trades from its own account on behalf of these inactive clients, the Noticee aided and abetted these clients in avoiding the reactivation requirements. These clients were also able to avoid bringing in any margins that would have been required for trading through the stock broker. Further, by executing trades from its own account for the clients who did not have a trading account with the stock broker, the Noticee aided and abetted these clients in avoiding compliance with margin requirements, thereby exempting these clients from the risk management measures of the stock broker and the exchange.

13. I note that for execution of transactions in a stock exchange for clients and for settling such transactions with the clients directly, a person should be registered as a stock broker with SEBI under section 12 of SEBI Act read with the provisions of

Broker Regulations. Further, a series of eligibility criteria have been prescribed for a person to be registered as a stock broker in terms of Rule 8 of SCR Rules, 1956. Instead of complying with the norms and requirements to obtain registration as a stock broker to deal and settle transactions executed in the market directly with the clients, the Noticee has circumvented the requirements by routing the trades of the clients through its own account with the affiliated broker.

14. In view of the same, by direct settlement of funds and securities with the clients of the affiliated stock broker and also with other investors who had not been registered with its affiliated stock broker, I find that the Noticee violated Section 12 of the SEBI Act read with Rule 8 of SCR Rules and Regulation 2(gc) of Broker Regulations.

Fraudulent/Unfair Trade Practices in Securities:

15. As noted above, the sub-broker executed trades on behalf of the clients from its own account. Further, the Noticee suppressed information from the stock broker as well as from the trading system that it was dealing in its own account on behalf of the clients/investors and charging brokerage for the same. Information about the ultimate clients on whose behalf the trades were being done was also suppressed.

16. The above act of the Noticee was a misrepresentation and concealment of facts while dealing in securities, and hence was fraudulent in nature. The Noticee also made personal gain by charging brokerage. Thus, it is clear that the Noticee acted fraudulently and violated Regulation 4(1) read with Regulation 2(1)(c) of PFUTP Regulations read with Clause D(4) of Code of Conduct prescribed for sub-brokers in Schedule II under Regulation 15(1)(b) of Broker Regulations.

17. In view of the above, I agree with the findings of the DA that the Noticee has violated the provisions of the SEBI Act, the SCRR, the Broker Regulations, PFUTP Regulations and the Circular as detailed above.

18. I also note that the Noticee did not appear for a personal hearing, nor did it file any reply before me in the matter. It is also noted that the Noticee did not make any submissions on merit even to the show cause notice issued by the DA in the instant proceedings. Further, vide letter dated October 26, 2018 submitted to the DA in the matter, the Noticee had stated that it had closed its sub-broking business.

19. In this regard, I also note that vide Circular No. SEBI/HO/MIRSD/DoP/CIR/P/2018 /117 dated August 03, 2018, "sub-broker" category has been discontinued as an intermediary to be registered with SEBI. Registered sub-brokers were given time till March 31, 2019 to migrate to act as an authorised person and/ or as a trading member. Sub-brokers who did not choose to migrate into either of the above, were deemed to have surrendered their registration with SEBI with effect from March 31, 2019.

20. As noted above, the Noticee has stated that it has closed the sub-broking business. Further, NSE has confirmed that as per the above cited circular, the registration of the sub- broker is deemed to be cancelled. NSE has also stated that the Noticee is now acting as an authorised person.

21. Hence, while I am in agreement with the DA that the violations and conduct of the Noticee need to be viewed seriously, in light of the 'deemed surrender/ cancellation' of the Noticee's registration, it would not serve any purpose to direct cancellation of the certificate of registration of the Noticee, at this stage.

ORDER

22. In view of the above, I, in exercise of powers conferred under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 27 of the Intermediaries Regulations, 2008, hereby close the ongoing proceedings in respect of the post enquiry show cause notice dated July 03, 2020 and the DA's enquiry report dated March 30, 2020 against the Noticee (sub-broker).

23. In light of the findings at para 16 above, a copy of this order shall be forwarded to all recognised Stock Exchanges for their information and any action, as deemed fit and appropriate against the Noticee.

Place: Mumbai **G. MAHALINGAM**

Date: June 29, 2021 **WHOLE TIME MEMBER**

SECURITIES AND EXCHANGE BOARD OF INDIA