

MCX STOCK EXCHANGE LTD.

DISCIPLINARY ACTION COMMITTEE

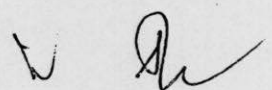
ORDER UNDER RULES 1 & 2 OF THE RULES OF MCX STOCK EXCHANGE LIMITED

1. Background:

- 1.1. Credo Securities Pvt Ltd (**CSPL** or the "**Member**") (Member ID 51600) is a Trading Member on the Currency Derivatives (CD) segment of MCX Stock Exchange Ltd. ("**the Exchange**") and is registered with Securities and Exchange Board of India (**SEBI**) as a trading member on CD segment of the Exchange with registration No. INE261337970 dated April 27, 2009.
- 1.2. A regular inspection of CSPL covering the period June 01, 2011 to May 31, 2012 was conducted by the Exchange in July-August 2012.

2. Inspection Finding – False Reporting of Client Margin Collection:

- 2.1. The Inspection of the member viz. Credo Securities Pvt. Ltd. was carried out on July 30, 2012 and August 1, 2012 covering the period June 1, 2011 to May 31, 2012.
- 2.2. The member was selected for inspection in the non-active category and hence the reduced sample size for dates to verify margin, trades and verification of correctness in reporting of client margin was taken and hence only 1 instance of margin reporting was verified.
- 2.3. In the said one instance (on January 04, 2012) it was observed that in case of one individual client viz. Ashok C Shah., the member reported to the Exchange that Rs. 17,097/- was been collected from the client.
- 2.4. On verification of the ledger of viz. Ashok C Shah, it was observed that the client had a balance of only Rs. 2,786/-.
- 2.5. There was a shortfall of Rs. 14,311/- in the margin reported to the Exchange and in the margin actually collected from the client.
- 2.6. The member could not produce any proof showing that he had collected the amount of margin that was reported by him.
- 2.7. SEBI through circular dated 10th August 2011 specified that if during inspection if it is found that a member has reported falsely the margin collected from clients, the member shall be penalized 100% of the falsely reported amount along with suspension of trading for 1 day in that segment.



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- 2.8. In view of the above, the discrepancy is seen as false reporting of margin and the penalty for the same is monetary penalty equivalent to the falsely reported amount i.e. Rs. 14,311/- and suspension of 1 day from trading.

3. Member's Explanation on false reporting of margin:

- 3.1. Along with other violations, this discrepancy was informed to the member vide Exchange Letter no. MCX-SX/INSP/RE/07/94/12-13/11183 dated August 17, 2012.
- 3.2. The member vide letter August 27, 2012 submitted his reply to the Exchange.
- 3.3. The member stated that on 4th January they received a cheque from Mr. Ashok Shah and based on the same reported the margin as collected to the exchange, however, due to error on their employee's part they were not able to deposit the same cheque in the bank on the same date and that the cheque was deposited in the bank after 2 days on January 06, 2012.
- 3.4. In support of their claim, the member submitted copies of cheque deposit slip dated 06-Jan-12 and bank statement showing a credit of Rs. 20,000/- received from Mr. Ashok Shah on the January 07, 2012.

4. Disciplinary Action Proceedings:

Vide notice no. MCX-SX/INSP/94/2013/2361 dated March 7, 2013, CSPL was granted an opportunity of hearing before the Disciplinary Action Committee of the Exchange on March 22, 2013. Accordingly, Mr. Sujal Seth, Director of CSPL and Mr. Piyush Vayda, Legal Representative of CSPL attended the hearing through video conference from Ahmedabad during which they made the following submissions during the hearings:

- (a) That this incident was an error on the part of their Clerk
- (b) That on January 4, 2012 they received a cheque Rs. 20,000/- from Mr. Ashok Shah and based on the same reported the margin as collected to the exchange, however, due to error on their employee's part they were not able to deposit the same cheque in the bank on the same date and that the cheque was deposited in the bank after 2 days on January 06, 2012
- (c) That the cheque Rs. 20000/- was cleared on January 7, 2012

5. Consideration of issues:

- 5.1. We have carefully considered the material on record including the replies filed and submissions made by CSPL.
- 5.2. It is noted that the member did not have adequate margin on the date of reporting (January 4, 2012) the same to the Exchange, though he showed proof that the cheque towards margin was deposited in the bank on January 6, 2012 and was cleared on January 7, 2012. We have

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perused the statement of accounts (client ledger of Mr. Ashok Shah) and find that there was a credit of Rs. 20,000/- duly recorded on January 7, 2012 and that there are no other debit transactions for the next few days. This points to the possibility that the cheque was indeed given for the transaction that took place on 4th January 2012 as contended by the member. The possibility of genuine error in depositing the cheque, as submitted by the Member is very likely.

5.3. However, we note that the Member had the opportunity to report the correct margin (short margin) to the Exchange up to T+2 days upon realizing the error on the part of his clerk of not depositing the margin cheque on time in the bank. The Member could then have paid the penalties prescribed for short reporting of margin. However, the Member did not do so.

5.4. We note that in terms of the penalty structures specified by SEBI vide circular no. CIR/DNPD/7/2011 dated August 10, 2011 for cases of false reporting, the Member would be liable to the following penalty:

- (i) A monetary fine of Rs. 14,311/- [100% of the falsely reported];
- (ii) The Member would be liable to be suspended from trading for 1 day.

5.5. While this is so, we also note that the extent of margin reporting is only Rs. 14,311/-, and is not very much significant so as to raise wider risk management issues. Moreover, the wrong reporting seems to have been caused which on account of genuine clerical error in not depositing the cheque in time and does not seem to be deliberately done. Under these circumstances, we feel that the lapse of not depositing the cheque in time and not correcting the error through the route of short reporting to Clearing Corporation, cannot be termed as 'false reporting' within the meaning of SEBI Circular dated August 10, 2011.

6. Directions:

6.1. Having regard to all facts of the case, we feel that the ends of justice and regulatory objectives would be served by imposing an appropriate monetary penalty on the member, without imposing any term of suspension.


6.2. We therefore direct that a monetary penalty equivalent to 100% of the wrongly reported amount of Rs. 14,311/ as prescribed by SEBI vide circular no. CIR/DNPD/7/2011 dated August 10, 2011 may be imposed on the Member.

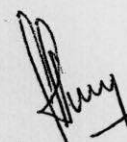
Dated on 20th day of May, 2013.


S.S. Thakur

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for MCX-Stock Exchange Ltd.


Company Secretary


Joseph Massey