

MCX STOCK EXCHANGE LTD.

DISCIPLINARY ACTION COMMITTEE

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

**1. Background:**

- 1.1 Aastha Agencies (AA) 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. INE261401017 on September 3, 2010.
- 1.2 AA is a member in the Individual category (Proprietrix - Ms. Tanvi Khandelwal)
- 1.3 AA has not activated its membership on the Exchange till date and there are no deposits of AA with the Exchange.
- 1.4 SEBI has advised the Exchange to carry out inspection of even those members who are not activated on the Exchange for trading. The scope of such inspection is verification of:
  - i. Compliance with Regulation 8 (1) (f) & 8 (3) (f) of SCRR i.e. (not to deal in commodities / business other than securities)
  - ii. Unapproved changes such as change in the control of member entity, change in the constitution, change in the shareholding, etc.
  - iii. compliance with Networth criteria as prescribed
  - iv. location of Member's office as per the details available with the Exchange

**2. Inspection:**

- 2.1 AA was selected for inspection in the 'Not Activated' Category.
- 2.2 An intimation letter no. MCX-SX/INS/RE/01/852/13-14/17456 dated August 21, 2013 was sent to the Member's communication address G-5, Shri Gopal Towers, Krishna Marg, C-Scheme, Jaipur 302001 intimating the member that an



inspection shall be carried out by the Exchange Officials on or after September 4, 2013.

- 2.3 On October 21, 2013, the Exchange official carried out the inspection at the AA's registered office.
- 2.4 During the visit, the Compliance officer, Mr. Tanmaya Khandelwal, informed that no business was undertaken by the firm since its formation on September 4, 2008 and hence annual accounts were not prepared for the preceding financial years.
- 2.5 During inspection, it was observed that :
  - 2.5.1 The net worth of AA was below the prescribed limit of Rs 1 Crore which is in violation of Regulation 16L(2) of SEBI Stock Broker and Sub broker Regulations, 1992, Rule 32 of the Rules of the Exchange and Exchange circular no. MCX-SX/MEM/49/2009 dated January 13, 2009.
  - 2.5.2 AA had not prepared and submitted annual returns and net worth certificate, which is a criterion for continued membership, in violation of Regulation 15.2 of the Regulations of the Exchange.
  - 2.5.3 Compliance with Rule 8 (i) (f) & 8 (iii) (f) of SCRR could not be verified due to non-submission of Annual Returns by the Member.

These observations were also certified by AA's Chartered Accountant vide certificate dated November 12, 2013.

### 3. Inspection Observations & issue of Show Cause Notice & Hearing before the Committee:

- 3.1 The above findings were sent to AA vide letter no. MCX-SX/INSP/RE/07/852/2013-14/20327 dated November 19, 2013 wherein AA was informed that the case would be placed before the Disciplinary Action Committee (DAC) to be held on December 13, 2013 and also was advised to appear before the Committee to present her case.
- 3.2 The meeting which was scheduled on December 13, 2013 was deferred to December 26, 2013 and the same was intimated to AA vide letter no. MCX-SX/INSP/852/2013/21241 dated December 16, 2013. However, AA did not attend the meeting.



- 3.3 The Committee deliberated on the matter and decided to give 15 days' time to AA to:
- 3.3.1 Increase the net worth to Rs 1 crore as prescribed
  - 3.3.2 Provide net worth Certificate as per the format prescribed by Dr L C Gupta Committee Report, as on March 31, 2013 and September 30, 2013 and as on the date, showing increase in the net worth
  - 3.3.3 Provide audited Balance Sheet and Profit & Loss account for the year 2012-13
- 3.4 The decision was informed to AA vide letter no. MCX-SX/INSP/2013-14/852/21570 dated January 1, 2014, however there was no response at all from the member.
- 3.5 Hence the Exchange issued a Show Cause notice to AA vide letter no. MCX-SX/INSP/RE/10/852/2013-14/1653 dated March 19, 2014, asking as to why disciplinary action should not be taken against the member and giving time till March 24, 2014 to submit their reply. However, AA did not respond to the notice also.

#### 4. Considerations

Hence the matter was again placed before the DAC in its meeting held on March 31, 2014. AA was informed of the same vide letter no. MCX-SX/INSP/RE/10/852/2013-14/1698 dated March 20, 2014 and offered a personal hearing before the DAC to present their case. AA was also informed that in case they do not appear before the DAC, the matter shall be decided on the basis of material available on record and the action may include expulsion from the membership of the Exchange. AA neither appeared before the DAC nor sent any reply to the Exchange.

During the meeting held on March 31, 2014, the following facts were considered by the DAC for arriving at a decision in the matter:

- 4.1 AA did not comply with the continued membership criteria for members as laid down by SEBI and the Exchange, even after repeated follow-ups.
- 4.2 AA did not comply with various Rules/Regulations/Bye-laws of the Exchange/SEBI, including the following:



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- 4.2.1 Regulation 16L (2) of SEBI Stock Broker and Sub broker Regulations, 1992, prescribing that 'an applicant who desires to act as a trading member, in addition to complying with the requirements of sub-regulation (1), shall have a net worth of Rs 1 Crore.'
- 4.2.2 Exchange circular no. MCX-SX/MEM/49/2009 dated January 13, 2009 requiring net worth of Rs 1 Crore for trading members of the Exchange in Currency Derivatives.
- 4.2.3 Regulation 15.2 of the Regulations of the Exchange specifying that 'the Member shall prepare, maintain and submit to the Exchange, annual accounts for each financial year, not later than six months after the end of the Trading Member's financial year'.
- 4.3 The member did not reply to the Exchange's letters including the following:
- 4.3.1 MCX-SX/INSP/RE/07/852/2013-14/20327 dated November 19, 2013
- 4.3.2 MCX-SX/INSP/2013-14/852/21570 dated January 1, 2014
- 4.3.3 MCX-SX/INSP/RE/10/852/2013-14/1653 dated March 19, 2014

## 5. Decision

We note that:

- 5.1 The Exchange has followed up with AA on numerous occasions and has given multiple opportunities for presenting their case in person before the DAC of the Exchange. It is also evident that the principle of natural justice has been aptly followed by the Exchange in its approach.
- 5.2 In terms of Rule 32 of the Exchange 'The relevant authority shall from time to time prescribe conditions and requirements for continued admittance to trading membership which may, inter alia, include maintenance of minimum net worth and capital adequacy, renewal of certification, if any, etc. The trading membership of any person who fails to meet these requirements shall be liable to be terminated.'





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5.3 Further, Rules 1 and 2 of Chapter V of the Rules of the Exchange provide as follows

**Rule 1:** "The relevant authority may expel or suspend and/or fine under censure and/or warn and/or withdraw any of the membership rights of a trading member if it be guilty of contravention, non-compliance, disobedience, disregard or evasion of any of the Bye Laws, Rules and Regulations of the Stock Exchange or of any resolutions, orders, notices, directions or decisions or rulings of the Stock Exchange or the relevant authority or of any other Committee or officer of the Stock Exchange authorised in that behalf or of any conduct, proceeding or method of business which the relevant authority in its absolute discretion deems dishonorable, disgraceful or unbecoming a trading member of the Stock Exchange or inconsistent with just and equitable principles of trade or detrimental to the interests, good name or welfare of the Stock Exchange or prejudicial or subversive to its objects and purposes"

**Rule 2:** In particular and without in any way limiting or prejudicing the generality of the provisions in Rule (1) above, a trading member shall be liable to expulsion or suspension or withdrawal of all or any of its membership rights and/or to payment of a fine and/or to be censured, reprimanded or warned for any misconduct, un-businesslike conduct or unprofessional conduct in the sense of the provision in that behalf contained herein.

5.4 Considering the series of events, the provisions of the Rules, Bye-laws and Regulations of the Exchange and the non-inclination of the Member to comply with the requirements of the Exchange, we hereby direct that the Member viz. Aastha Agencies be expelled from the membership of the Exchange with immediate effect.

Dated this

*26/06/2014*

*Thomas Mathew*

Thomas Mathew T.

*Ashima Goyal*

Prof. (Mrs.) Ashima Goyal

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*Ashima Goyal*  


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