

BEFORE DISCIPLINARY ACTION COMMITTEE
METROPOLITAN STOCK EXCHANGE OF INDIA LTD.
(Formerly known as MCX Stock Exchange Ltd.)

ORDER UNDER RULES 1 & 2 OF THE RULES OF METROPOLITAN STOCK
EXCHANGE OF INDIA LTD. AGAINST MAA PADMAWATI SHARE AND STOCK
BROKING PRIVATE LIMITED (MEMBER ID 14440)

BACKGROUND AND FACTS

- 1.1. Maa Padmawati Share And Stock Broking Private Limited ("Maa Padmawati or the "Member") (Member ID 14440) is a member of the Metropolitan Stock Exchange of India Ltd. ("the Exchange"). Details of its membership are reproduced in the tabulation below:

Sr No	Segment	SEBI Registration No	SEBI Registration Date	Active/ Non-Active
1	Equity	INB261478730	08-Feb-2013	Non-Active
2	Future & Options	INF261478730	08-Feb-2013	Non-Active

- 1.2. As per the directive of SEBI, the Exchange is required to ascertain that inactive brokers are not carrying out any other business in violation of Rule 8 (1) (f) & 8 (3) (f) of the Securities Contracts Regulations Rules (SCRR). Accordingly, the Exchange decided to conduct the inspection of the Member that whether the Member is doing any business other than securities which is not in compliance with Rule 8 (1) (f) & 8 (3) (f) of the SCRR. The Exchange therefore, appointed the

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Exchange officials as the Inspection Authority under Regulation 8.1 of the Capital Market and F&O Segments to conduct the inspection of the Member during the financial year 2015-16.

- 1.3. The Member was issued a notice vide Exchange letter ref. no. MSEI/INS/RE/01/1337/15-16/3656 dated June 16, 2015 ("Inspection Notice"). The said notice informed the Member that the Exchange had scheduled an inspection of its books of accounts and that the same shall commence on or after June 30, 2015. The Member was also requested to provide the information / details/ documents mentioned in the Inspection Data Requisition (IDR) at the time of inspection. The notice was dispatched via First Flight Courier to the following Registered Office address as provided by the Member to the Exchange: E-302, Lal Kothi Scheme, Jaipur – 302015.
- 1.4. However, the above said notice returned undelivered with a remark "shifted". It was then resent on July 1, 2015 at the new address given by the member i.e. 83, New Raja Park, Ram Gali No. 6, Near Suraj Maidan, Raja Park, Jaipur – 302004. A Scanned copy of the letter dated June 16, 2015 was also sent through email on id viz., rituchhajer67@gmail.com on June 16, 2015 to the member. The email did not bounce back and hence it was assumed that the mail was delivered to the member
- 1.5. Subsequently, the Inspection Authorities visited the Member's Registered Office viz., E-302, Lal Kothi Scheme, Jaipur – 302015 on August 10, 2015. However, it was observed that the office of Maa Padmavati was locked. The Inspection team later visited another office of Member viz 83, New Raja Park, Ram Gali No. 6, Near Suraj Maidan, Raja Park, Jaipur – 302004, and met Mr. Sandeep Chhajer, Director of the Member.

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During the meeting, Mr Chhajer explained his inability to submit the requisite documents because of his failure to commence the business activity. Hence no inspection could be conducted to verify compliance with (SCRR) Rule 8(i) (f) and 8(iii) (f).

1.7. In view of the above, the Exchange decided to issue a letter reference no. MSEI/INS/RE/01/1337/15-16/4988 dated September 01, 2015 wherein the Member was advised to:

- a. Provide the Inspection Data Requisition (IDR) along with the relevant supporting documents and allow the Exchange to conduct the inspection;
- b. Advised to extend full co-operation to the Exchange Official and provide all the required documents for verification.

1.8. The Member was advised to reply by September 11, 2015.

1.9. The said letter was sent through Courier on the Director's residential address viz., New Raja Park, Ram Gali No. 6, Near Suraj Maidan, Raja Park, Jaipur – 302004 . It was observed that the same were received by the Member on October 05, 2015

1.10. Since there was no response from the member, the Exchange issued three more reminders, each time giving a further time of 7 days to submit the comments/documents to the Exchange. It was observed that the reminder letters were received by the Member.

1.11. From the above, it was observed that the Member has received the letters / reminders sent through Courier. However, the Member did not respond to any of the Exchange communications. In other words, the Member did not extend any assistance or cooperation with the Exchange or to the Inspection Authority in order to conduct inspection and as well as did not provide access to the required documents despite of repeated reminders due to which the Inspection Authority

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could not verify the required documents as well as whether the Member has complied with the requirements of Rule 8(1) (f) and 8(3) (f) of SCRR.

1.12. In view of the above fact, owing to Member's continued reluctance and non-cooperation with the Inspection Authorities, a Show Cause Notice vide letter reference no. MSEI/INS/RE/01/1337/15-16/5893 dated October 29, 2015, was issued to the Member showing that the Member had prima facie contravened the following provision:

- a. Bye-Law 2(h) of Chapter VI of the Bye-Laws of the Exchange read with Regulation 4.2.1 (d) of the Regulations of the CM and F&O Segments for non-cooperation with the Inspection Authorities and did not furnish the required documents.
- b. Regulation 7.2 of the Regulations of the CM and F&O Segments which requires a Member to prepare, maintain and submit to the Exchange, the annual accounts for each financial year, not later than 6 months after the end of the Trading Member's financial year. The Member had not submitted its annual accounts to the Exchange and also did not provide access to the required documents/information as required by the Inspection Authorities, due to which, it could not be verified whether the Member had complied with the Regulatory requirements..
- c. Regulation 16L of SEBI Stock Broker and Sub-Broker Regulations, 1992, Rule 32 of Chapter III of the Rules of the Exchange also the Exchange Circular No. MCX-SX/MEM/49/2009 dated January 13, 2009. The Member had not submitted Net worth Certificate since October 31, 2012, due to which, it could not be verified whether the Member had maintained the prescribed limit of Rs. 30 Lacs.
- d. Regulation 4.2.1 (f) of the Regulations of the CM and F&O Segments of the Exchange which mandates the Members to submit information to the Exchange on its change in the status of the offices etc. The Member had not updated its information with the Exchange.

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- 1.13. In the light of the above, the Member was asked to show cause as to why disciplinary action should not be taken against it in accordance with Rules 18 & 2 and other applicable provisions of Chapter V of the Rules of the Exchange.
- 1.14. The Member was further advised to submit its reply to the said Show Cause Notice along with the relevant supporting documents latest by November 8, 2015, failing to which it shall be construed that the Member does not have anything to offer and accordingly the case shall be placed before the Disciplinary Action Committee ("the Committee") in its next meeting. The Member shall be informed about the same once the date and venue of the meeting would be finalized so as to be given an opportunity to appear before the Committee and present its case.
- 1.15. Since, the Member did not send any reply to the said Show Cause Notice; The Exchange issued three more reminders to the member, each giving further one week's time to submit its comments/documents. The Show Cause Notice and reminder letters were sent on Director's residence address viz., 83, New Raja Park, Ram Gali No. 6, Near Suraj Maidan, Raja Park, Jaipur - 302004 through Registered A.D., Speed Post, and Courier. The letter sent through Registered A.D., Speed Post, Courier and email were received by the member.
- 1.16. Although the Member received the Exchange communications either through the email or through Register AD, Speed Post and Courier, still the member did not member did not communicate with the Exchange. Therefore, the Exchange decided to refer the matter to the Disciplinary Action Committee for further action in this regard.
- 1.17. Thereafter, the Exchange issued hearing notice vide letter no. MSEI/INS/RE/01/1337/15-16/396 dated January 29, 2016 to the Member which stated that the matter was being placed before the Committee in its meeting

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scheduled to be held on February 13, 2016. The Member was advised to appear in person before the Committee along with its representative(s) to present its case and submissions in respect of the observations entailed in the said Show Cause Notice. It was informed to the Member that the Committee after considering the Member's written reply and oral submissions, shall decide the action to be taken in the matter under Chapter V of the Rules of the Exchange.

1.18. However, the Meeting was postponed and the same was intimated to the Member vide its letter reference no. MSEI/INS/RE/01/1337/15-16/497 dated February 9, 2016.

1.19. The meeting was later rescheduled on March 12, 2016. It was intimated to the Member vide its letter reference no. MSEI/INS/RE/01/1337/15-16/816 dated March 1, 2016.

1.20. All these letters were received by the Member.

1.21. Accordingly, the matter was placed before the Committee in its meeting held on March 12, 2016. Though the hearing notices as well as all the emails were received by the Member, the Member neither appeared before the Committee nor sent any communication to the Exchange.

CONSIDERATION OF ISSUES AND FINDINGS:

1.22. The Committee first notes that the Exchange has followed up with the Member on numerous occasions and has given the Member multiple opportunities for presenting its case in person before the Committee. The Member still remained absent before this Committee. It is also evident that the principle of natural justice was aptly followed by the Exchange in its approach. Considering the reasonable

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opportunities already afforded for making submissions in the matter, the Committee inclined to proceed with the matter.

1.23. The Committee has carefully taken into consideration the facts and the circumstances of the case and the material available on the record. The Committee has also examined all the supporting documents including show cause notice. It has been alleged that the Member did not extend any co-operation to the Inspection Authorities further to issuance of the Inspection Notice. It has further been alleged that the Member did not provide the data required to verify the compliance with the Rules/ Regulations and Bye-Laws and various circulars issued by the Exchange. It was therefore recommended that the Member is liable for action under Rules 1 & 2 of Chapter V of the Rules of the Exchange. In light of the factors, the Committee shall now consider the following allegations which were placed before it:

- i. Non co-operation with the Inspection Authorities
- ii. Non- Submission of Annual Accounts;
- iii. Non- Submission of Net worth Certificate;
- iv. Non- Submission of information with the Exchange of any change in the status and constitution , operation and activities of Member.

1.24. The first issue before the Committee for consideration is that the Member did not co-operate with the Inspection Authorities further to issuance of the Inspection Notice. In this regard, the Committee notes that as per the directive of SEBI, the Exchange must ascertain that the inactive brokers are not carrying out any other business in violation of Rule 8 (1) (f) & 8 (3) (f) of the SCRR. Further, it notes that the Exchange should have alternative effective system such as conducting surprise inspection etc., to ensure the compliance of the Regulations.

1.25. The Committee notes that the Bye-Law 2(h) of Chapter VI of the Bye-laws of the Exchange requires the Members to extend full co-operation and furnish such information and explanation as may be required for the purpose of any inspection or audit authorized by the relevant authority or other authorized official of the Stock Exchange, into or in regard to any trades, dealings, their settlement, accounting and/or other related matters.

1.26. The Committee further notes that Regulation 4.2.1 (d) of the Regulations of the Capital Market and F&O Segments of the Exchange mandates the Members to

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maintain such records and make available for inspection by any person authorized in this behalf by the Exchange, the information related to such Trading Member's financial condition as specified by the Exchange for this purpose.

- 1.27. Further the Committee notes that in terms of the Rules/ Regulations and Bye-Laws of the Exchange, it is required that a Member allows and co-operates with the Inspection Authorities at the time of inspection. One aspect of such co-operation is timely provision of information and documents as required and requested by the Inspection Authorities.
- 1.28. In the present case, the Committee notes that the subject inspection was to be undertaken as per the directive issued by SEBI so as to confirm whether the Member was in compliance with Rules 8(1)(f) & 8(3)(f) of Securities Contract Regulation Rules. These rules mandate that a broker/ Trading Member should not involve itself in any business other than that of securities. It further notes that an inspection notice to that effect was issued on June 16, 2015 on member's Communication Address viz., E-302 Lal Kothi Scheme, Jaipur 302015 in accordance with the requirements of Regulation 8.1 and since the said notice was returned undelivered, the Exchange re-sent the same on July 1, 2015 on Member's new communication office address as provided by the member i.e. 83 Raja Park, Ram Gali No.6, Near Suraj Maidan, Raja Park, Jaipur 302004 which is also the residential address of one of the Directors of the member viz., Mr. Sandeep Chhajer. The Committee also notes though the Director Mr. Sandeep Chhajer met the inspection team, he neither extended co-operation in conducting the inspection nor submitted any documents for verification.
- 1.29. The Committee notes that further to issuance of the Inspection Notice, the Member was given more than ample opportunities to extend its co-operation. However, it notes that the Member has blatantly disregarded the requirements of the aforesaid Bye Laws and Regulations. The fact that the Member has not extended even the slightest inclination to the Inspection Authorities in respect of the proposed Inspection highlights its indifference to procedural and statutory protocol, due to which, the Inspection Authority/Exchange could not verify whether the Member had complied with the requirements of Rule 8(1)(f) & 8(3)(f) of SCRR. The Committee is of the view that such acts of willful neglect have to be viewed seriously as the Exchange is prevented from discharging its own statutory obligations. Therefore, it is established that Maa Padmawati has

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contravened the aforesaid provisions of the Bye-laws and Regulations of the Exchange.

- 1.30. The next issue for consideration before the Committee pertains to Non-Submission of Annual Returns, Net worth Certificate and information etc, by the Member to the Exchange/Inspection Authorities. The Committee notes that as per Regulation 7.2 of the Regulations of the Capital Market and F&O Segments of the Exchange, every Member is required to prepare annual accounts for each financial year ending on March 31st or such other date as advised to the Exchange.
- 1.31. The Committee further notes that Regulation 16L(2) of SEBI Stock Broker and Sub broker Regulations, 1992, Rule 32 of the Rules of the Exchange and the Exchange circular no. MCX-SX/MEM/49/2009 dated January 13, 2009, mandates the members to maintain a net worth of Rs. 30 lacs at all times.
- 1.32. Over and above these requirements, Regulation 4.2.1(f) of the Regulations of the Capital Market and F&O Segments of the Exchange mandates its members to inform the Exchange of any change in its status and constitution, operation and activities, which may however be effected subject to receipt of such approvals and/or following such procedure as may be specified by the Exchange, where applicable.
- 1.33. In the present case, the Committee notes that the Member has failed to submit any of the documents as well as had not provided access to the required documents to the Inspection Authorities even after the repeated follow ups. The Member in failing to submit these documents has further violated the requirements of the Rules and Regulations of the Exchange. However, the Committee has particularly noted the following instances, and shall analyze each in detail, as below:
 - i. As per the prescribed Circular, the Member is required to submit a Net Worth Certificate. In this regard, the Committee also notes that Rule 32 of Chapter III of the Rules of the Exchange states that 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 or certification etc. In respect of this rule, the Committee further notes that the Exchange Circular No. MCX-SX/MEM/49/2009 dated January 13, 2009 as well as the Regulation 16L of the SEBI (Stock Brokers

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and Sub-Brokers) Regulations, 1992 both state that a Member is required to maintain a minimum net worth of Rs. 30 lacs. However, it was observed that the Member did not submit its certificate of net worth since October 31, 2012 and also did not make the same available for inspection either. Therefore, there was absolutely no way of knowing whether the Member had maintained this minimum net worth.

- ii. In addition to the above, the Committee notes that Regulation 7.2 of the Regulations of the Exchange requires the Members to prepare, maintain and submit to the Exchange, the annual accounts for each financial year. It is further noted that the Member did not submit its annual accounts since March 2013 and also did not make the same available for inspection. Although the Member was given an opportunity to rectify this, there was no response and thereby no rectification to that effect. Moreover, the Committee notes that the Member, in this case too, was given sufficient and ample opportunities to rectify the said defect.
 - iii. The Committee notes that the Member did not submit the required information in terms of Regulation 4.2.1(f) of the CM and F&O Segment of the Exchange. It is a mandatory requirement for the Members to update the above information with the Exchange and the Member was aware of the above requirements much prior to issuance of the Inspection Notice and the Show Cause Notice.
- 1.34. It is pertinent to highlight that these contraventions are in addition to the contravention established in the previous section, as this stems from non-compliance with a standing mandate. The fact that the Member has not submitted the annual returns, net worth certificates and information etc. and has also not provided access to Inspection Authority to the required documents are sufficient reasons to establish the contravention and non-compliance of the aforesaid Rules, Regulations and Circulars. The fact that the Member did not endeavor to right the wrong for its indifference to the statutory requirements, due to which the Inspection Authorities could not verify the required documents and also ensure whether the Member had complied with the Regulatory requirements. The Committee is thus of the view that Maa Padmawati has failed to comply with the

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Regulatory requirements, and therefore it has contravened the above said provisions.

- 1.35. Having considered the facts of the case, as elaborated above and having established the aforesaid contraventions by the Member, the Committee is of the view that the Member is liable for the action in accordance with Rules 1 & 2 of Chapter V of the Rules of the Exchange which are read as under:

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.

- 1.36. While determining the action under Rules 1 & 2 of Chapter V of the Rules of the Exchange, the Committee has particularly considered the fact that the Member is not active and has blatantly disregarded the requests for Inspection from the Exchange. The Committee further considered the fact that even after the repeated follow ups; the Member neither cooperated with the Inspection Authorities nor submitted the required information/documents to the Inspection Authorities/Exchange. The fact that all the requests of the Inspection Authorities were ignored and also that the Member did not show any hint of inclination towards co-operating with the Inspection Authorities cannot be taken lightly by the

Committee. The conduct of the Member requires to be severely reprimanded so as to prevent the other Trading Members from indulging in acts as observed in this case. Additionally, the Committee is of the view that the Member has to be prevented from taking advantage of the leniency afforded to it.

ORDER

- 1.37. After taking into consideration all the facts and circumstances of the case, the Committee hereby suspends the Member viz. Maa Padmawati Share and Stock Broking Pvt. Ltd., from the membership of the Exchange with immediate effect.
- 1.38. The suspension shall be in force till the time the Member approaches the Exchange with the intention to co-operate with the Inspection Authorities for the period as defined in the Inspection Notice and makes all the relevant submissions.

Dated on 22nd day of May 2016.



Thomas Mathew T.



Udai Kumar

