

**MCX STOCK EXCHANGE LTD.  
DISCIPLINARY ACTION COMMITTEE  
ORDER UNDER RULES 1 & 2 OF THE RULES OF MCX STOCK EXCHANGE LIMITED**

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**1. Background:**

- 1.1. Mauzampuriah Securities Broking Private Ltd. (**MSBPL** or the "**Member**") (Member ID 69300) 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. INE261346535 dated August 7, 2009.
- 1.2. A regular inspection of **MSBPL** covering the period August 1, 2011 to July 31, 2012 was conducted by the Exchange in August 2012.

**2. Inspection Finding – Non submission of complete documents for verification:**

- 2.1. A regular Inspection **MSBPL** was carried out in September 2012 covering the period August 1, 2011 to July 31, 2012.
- 2.2. During an inspection the Member is required to produce various documents/details to the Exchange Inspection Officials for verification of adherence of various compliances by the Member.
- 2.3. The Exchange had sent the list of documents to be submitted for inspection to the Member. This list was sent to the Member vide email dated August 14, 2012 addressed to Mr. Hari Shanker Gupta.
- 2.4. One of the documents required was Client bank book and Own bank book for the complete inspection period.
- 2.5. During the inspection the Member did not submit client bank book for the complete inspection period and own bank book for the period April 01, 2012 to July 31, 2012. Due to which the following compliances could not be verified for the said period.

| Sr. No. | Compliance                                | Requirement  |
|---------|---|--|
| 1       | Segregation of client funds and own funds | The Member is required to open two separate bank accounts. One to keep his own funds and another to keep client funds.<br><br>The Member is required to segregate his own funds from clients' funds. |
| 2       | Use of Client Bank account                | The Member cannot use client bank account for purposes other than those specified in Regulation.   |
| 3       | Payment of funds to clients               | The Member is required to pay money only to clients and required to receive money only from clients.   |
| 4       | Use of client funds                       | Member cannot not misuse client funds  |

- 2.6. The Member had agreed to provide the 'client bank' book and 'own bank' book by September 18, 2012 and had mentioned the same in the Preliminary Finding Sheet (PFL) signed by Him.
- 2.7. Vide his email dated October 06, 2011; the Member submitted bank book of Client Bank Account (A/c No. 01270340004764 Bank Name HDFC Bank Ltd) for the period August 01, 2011 to March 31, 2012. Since the Member did not submit complete client bank book, above mentioned compliances could not be fully verified.
- 2.8. The report was finalized and the findings of inspection were sent to the Member vide letter no. MCX-SX/INSP/RE/07/485/2012-13/12861 dated October 10 2012. The Member was given time up to October 22, 2012 to furnish his comments in writing and submit the pending documents (bank book of own account (August 01, 2011 to July 31, 2012 and client account April 01, 2012 to July 31, 2012) along with relevant documentary evidences.
- 2.9. However no reply was received from the Member till the due date.
- 2.10. Two more reminder letters were issued to the Member on October 29, 2012 & November 07, 2012 respectively reminding him to submit his reply for the observations during inspection. Details of the reminders sent are as follows:



| S.No | Reminder Issued on | Time provided to reply |
|------|--------------------|------------------------|
| 1    | October 29, 2012   | November 05, 2012      |
| 2    | November 07, 2012  | November 15, 2012      |

2.11. The Member provided his reply vide letter dated November 15, 2012 received by the Exchange on November 21, 2012. In the said reply the Member provided comments on other violations pointed out in the observation letter however did not provide the pending documents.

2.12. Hence, the Exchange again vide letter no. MCX-SX/INSP/RE/ 07/485/2012-13/1815 dated February 26, 2013 again advised the Member to submit the pending documents. He was also informed that in case of failing to submit the documents the matter shall be placed before the Disciplinary Action Committee of the Exchange for further action. So far the exchange is not in receipt of any reply.

**3. Disciplinary Action Proceedings:**

3.1. Vide notice no. MCX-SX/INSP/2012-13/2531 dated March 12, 2013, MSBPL was granted an opportunity of hearing before the Disciplinary Action Committee of the Exchange on March 22, 2013. However, the Member did not attend the meeting. The Member also did not submit any reply/clarification on the same.

3.2. On March 22, 2013 however, the Member sent soft copy of Bank Book of his Settlement Account for the period 1-Apr-2012 to 31-Jul-2012 instead of the bank book of OWN Bank Account for the period August 01, 2011 to July 31, 2012 and Bank Book of CLIENT Bank Account for the period April 01, 2012 to July 31, 2012. The Exchange again followed up with the member for submission of the same.

3.3. Post the meeting of the Committee, the Member vide email dated April 18, 2013 submitted all the required Bank Books for 'client account' (for the period from April 1, 2012 to July 31, 2012) and mentioned that he had not maintained any bank account for Own transactions.

3.4. On verification following non-compliances were observed:-

i. Non- Segregation of client funds and own funds:

The Member vide email dated April 18, 2013 stated that he had not maintained any bank account for Own Transactions, which indicates that he has not maintained the mandatory segregation.



ii. Use of client bank account for non- specified purposes:

The member is seen to have deposited funds in client bank account nos. 01270340004764 with HDFC bank received from entities other than clients and also remitted funds to entities other than clients from client bank account no. 01270340004764 maintained with HDFC bank.

The quantum of the non compliance (During the period April 1, 2012 to July 31, 2012) is as under:

|   |                 |
|---|-----------------|
| Total instances in the Client Bank Account                            | 259             |
| No. of instances of non specified purposes in the Client Bank account | 17              |
| Percentage of instances   | 6.56%           |
| Total Amount (receipt)  | Rs. 4,13,500/-  |
| Total Amount (Payment)  | Rs. 56,628.22/- |

- 3.5. The aforesaid analysis was placed before the DAC at its further meeting held on May 20, 2013 and has been examined by us. We note that by the Member's own admission made in his email dated April 18, 2013, that he has failed to maintain the required segregation between his clients and own accounts. This is a violation of Regulation 15.1.6.1(a) and 4.4.13 of the Regulations-CD Segment of the Exchange.
- 3.6. As far as the other contravention of use of client accounts for non-specified purposes is concerned, we note that the Exchange had noticed the same violation during the period August 01, 2011 to March 31, 2012 covered in the same inspection for which the member had earlier submitted the requisite bank books and imposed a penalty of Rs. 10,000/- which has since been collected from the member. We note that the same non-compliance is observed also during the period April 01, 2012 to July 31, 2012, which the Member has now submitted the bank books. This is a continuous violation of Regulation 15.1.6.1(a) and 4.4.13 of the Regulations-CD Segment of the Exchange.

**4. Consideration of issues:**

We have carefully considered the material on record including the replies filed and submissions made by MSBPL and we have also noted the following:

- a) That the Member has now submitted all the pending documents, albeit with significant delay and after repeated follow-up.





- b) In terms of Exchange Circular ref no. MCX/SX/INSP/734/2012 dated March 20, 2012, the admitted violation of non-segregation of client and own funds attracts a penalty of Rs. 10,000/- which we feel should be imposed in this case.
- c) In terms of Exchange Circular ref no. MCX/SX/INSP/734/2012 dated March 20, 2012, the violation of use of clients bank account attracts a penalty of Rs. 10,000/-. Having regard to the fact that the said maximum penalty of Rs. 10,000/- has already been levied in respect of the same violation for earlier inspection period comprised in the same inspection period, we do not feel it necessary to impose any further penalty towards the same.

**5. Directions:**

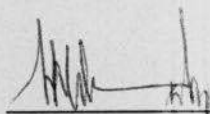
It is hereby directed that:

- a) The Member should fully co-operate in all future inspections and other lawful proceedings initiated by the Exchange.
- b) The penalty of Rs. 10,000/- be levied on the Member for the violation of 'Non Segregation of client funds and own funds' noted above.
- c) No further penalty needs to be imposed for the violation of 'Use of client bank account for non- specified purposes' for the subsequent period comprised in the same inspection period. However, the Member is directed to ensure full compliance with regulation 15.1.6.1(a) and 4.4.13 of the Regulations-CD Segment of the Exchange on an immediate basis.

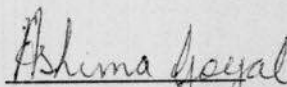
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Dated on 16<sup>th</sup> day of July, 2013.

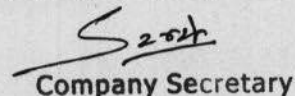
For MCX-Stock Exchange Ltd.



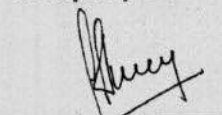
**S.S.Thakur**



**Ashima Goyal**



**Company Secretary**



**Joseph Massey**