

**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. Pushpak Finstock (PF or the "Member") (Member ID 68300) 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. INE261342930 dated June 26, 2009.
- 1.2. A regular inspection of 'PF' covering the period July 01, 2011 to June 30, 2012 was conducted by the Exchange in August 2012.

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

- 2.1. During the inspection, one of the items verified was whether the reports of client margin collections submitted by the Member to the Exchange/Clearing Corporation was in order. 12 instances of client margin reporting were verified on sample basis. Out of the said 12 instances, it was observed that in one instance (on 21-Oct-2011), in case of a corporate client, viz., Rushil Industries Ltd., the Member had reported to the Exchange that an amount of Rs. 15,19,178/- was collected from the client. The required amount of margin to be collected was Rs. 15,19,178/-. On verification of the ledger of Rushil Industries Ltd., maintained by the Member, it was observed that the client had a credit balance of Rs. 15,19,002/- on the said date.
- 2.2. There was a shortfall in the amount to the extent of Rs. 176/- collected from the client and reported to the Exchange.
- 2.3. The Member could not produce any proof showing that he had collected the amount of margin that was reported by him.
- 2.4. SEBI through circular dated 10th August 2011 had specified that if during inspection it is found that a Member has falsely reported 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
- 2.5. 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. 176/- 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/07/220/12-13/12200 dated September 21, 2012.
- 3.2. The Member vide letter dated September 27, 2012 provided reply to all the discrepancies observed, except for the said false reporting violation.

**4. Disciplinary Action Proceedings:**

- 4.1. Vide notice no. MCX-SX/INSP/220/2013/2362 dated March 7, 2013, 'PF' was granted an opportunity of hearing before the Disciplinary Action Committee of the Exchange on March 22, 2013 and Mr. Praveen Toshniwal – Legal Representative of 'PF' attended the hearing through video conference from Ahmedabad.
- 4.2. After sending of the notice of hearing and prior to the date of meeting, the Member submitted a letter dated March 16, 2013 replying to the observation of false reporting of client margin collection for the first time.
- 4.3. The Member in its reply had stated that the Mark to Market debit on the margin date i.e. October 21, 2011 was not considered while reporting the margin to the Exchange. If the Mark to Market debit for the margin date is not considered, there would have been an excess credit balance of Rs. 5, 37,219.56/- in the client ledger.
- 4.4. The Member had also submitted a revised working of margin collection from clients.

**5. Scrutiny of Member's Reply and Exchange views on the same:**

- 5.1. The revised margin working submitted by the Member was re-verified.
- 5.2. It was observed that Member's margin reporting calculation was in line with Point No. 11 (mentioned below) of the Exchange Circular No. MCX-SX/ISP/667/2011 dated December 20, 2011 which gives Clarification regarding margin collection and reporting by Members:  
*"As regards accounting entry for MTM in its books, the member may choose to give the effect on T day or T+1 day, subject to the member following the practice consistently for a minimum period of 1 year and the practice not being changed in the intermediate period."*
- 5.3. The Inspection Team of the Exchange had after a scrutiny of the letter, observed that after considering the revised balances i.e. excluding Mark to Market debit/credit on the transaction date for all dates/clients selected for sample scrutiny and also considering the



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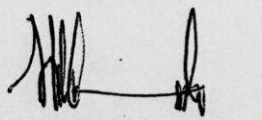
India's New Stock Exchange

excess balances provided by C.A. certificate, there was no false reporting of margin by the Member.

**6. Consideration of issues & directions:**

- 6.1. We have carefully considered the material on record including the replies filed and submissions made by 'PF'.
- 6.2. It is noted that the Member had not considered Mark to Market debit on the margin date i.e. October 21, 2011 while reporting the margin to the Exchange. If the Mark to Market debit for the margin date was not considered, there would have been an excess balance of Rs. 5,37,219.56/- in the client ledger.
- 6.3. It is also noted that Member's revised calculation is in line with point no. 11 of the Exchange Circular No. MCX-SX/ISP/667/2011 dated December 20, 2011 which gives Clarification regarding margin collection and reporting by Members.
- 6.4. We find that after considering the revised balances i.e. excluding Mark to Market debit/credit on the transaction day for all dates/clients selected for sample scrutiny and also considering the excess balances certified by their Chartered Accountant, there is no net debit balance across exchanges in any client ledger on the sample dates and consequently no case of false reporting of margin is made out against the Member. The same has also been verified and confirmed by the Inspection team of the Stock Exchange.
- 6.5. We therefore close the proceedings initiated against 'PF' through show cause notice dated March 7, 2013.

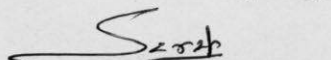
Dated on 20<sup>th</sup> day of May, 2013.



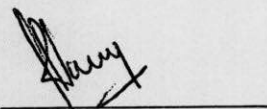
S.S.Thakur

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or MCX-Stock Exchange Ltd.



Company Secretary



Joseph Massey