

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 RS FINANCIAL SERVICES (MEMBER ID 10880)

BACKGROUND AND FACTS

- 1.1. RS Financial Services , Proprietor Mr. Sethu Vashishth ("RS Financial or the "Member") (Member ID 10880) is a Trading 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	Current Status
1	Equity	INB261471719	17-Dec-2012	Non-Active
2	Future & Options	INF261471719	17-Dec-2012	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 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. MSXI/INS/RE/01/1260/15-16/2771 dated May 13, 2015 ("Inspection Notice"). The Exchange had informed the Member that it will conduct an inspection of its books of accounts and that the same shall commence on or after May 27, 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 said notice was dispatched via First Flight Courier to the following Office address as provided by the Member to the Exchange: 713 , Arunachal Building 19, Barakhamba Road New Delhi - 110001.

- 1.4. However, the above said letter returned undelivered with a remark "*No such consignee / co. at the given address*". A scanned copy of the above said letter dated May 13, 2015 was also sent through email on id viz., to setuvashishth@gmail.com the Proprietor of RS Financial, Mr. Setu Vashisth on May 14, 2015 and May 15, 2015. The email did not bounce back and hence it was assumed that the email was delivered to the Member.
- 1.5. Subsequently, the Inspection Authority visited the Member's office at the above mentioned address on May 28, 2015. However, it was observed that some other office was functioning from the above said premises.
- 1.6. Upon enquiry, it was found that the office of RS financial has been shifted to another place, therefore, the Inspection Authority was provided with the contact no. 011-40039999, belonging to Mr Setu Vashisth, Proprietor of RS Financial. Thereafter, the Inspection Authority contacted the Member on their landline no. 011-40039999, and someone attended the call and informed that Mr Setu Vashisth was not available in office and further informed about the current address of the Member i.e. 1022A, 10th floor, Hemkunt Chambers 89, Nehru place , New Delhi-110019.
- 1.7. The copy of the inspection intimation letter was then sent on the above new said address vide Exchange letter no. MSEL/INS/RE/01/1260/15-16/3414 dated June 02, 2015. From the records of the courier company, it was observed that the above said letter was delivered at the above said office on June 04, 2015.
- 1.8. The Inspection Authority also visited the Member's new office on June 01, 2015, and met Mr Ritesh (a representative of the Member) who informed that Mr Setu Vashisth (Proprietor) deals with the inspection related matters and is out of station till June 12, 2015 and he will be the only person who will be able to reply in this subject matter.

Setu

- 1.9. Since, Mr Setu Vashisth (Proprietor) was available only after June 12, 2015, the Exchange again vide its email dated June 02, 2015, informed the Member of its visit which was scheduled on June 16, 2015. The Inspecting Authority then visited the Member's office on June 16, 2015. It was further noticed that once again Mr Setu Vashisth was not available. Mr Ritesh did not provide any document and further stated that he will again inform Mr Setu Vashisth about the inspection of the Exchange.
- 1.10. From the above, it was observed that the Member i.e. RS Financial was not co-operating with the Exchange and hence no inspection could be conducted to ensure compliance with Rule 8(1) (f) and 8(3) (f) of SCRR.
- 1.11. Therefore, the Exchange decided to issue a letter reference no. MSEI/INS/RE/01/1060/15-16/5595 dated October 12, 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.
- 1.12. It was further informed to the Member that since RS Financial is a Member of other Exchanges; in case, any action taken by the Exchange against RS Financial, shall have adverse repercussions on its membership of other Exchanges also. The Member was advised to reply by October 22, 2015.
- 1.13. The said letter was sent through Registered A.D., Speed Post, Courier and to the email id viz., setuvashisth@gmail.com of the Proprietor on October 12, 2015. It was observed that the letters sent through Registered A.D., Speed Post, Courier were received by the Member. The email too did not bounce back and hence it was assumed that the email was also delivered to the Member. Since there was no response from the Member, the Exchange issued three more reminders to Member, each time giving a further time of 7 days to submit comments/reply to the Exchange. It was observed that the reminders were received by the Member.

Handwritten signature

1.14. From the above, it was observed that the Member has received the letters / reminders either through Registered AD / Speed Post or 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 as well as did not provide access to the required documents despite of repeated reminders due to which the Inspection Authority could not verify the required documents and to ensure whether the Member has complied with the requirements of Rule 8(1) (f) and 8(3) (f) of SCRR.

1.15. In view of the above fact and Member's continued reluctance and non- cooperation with the Inspection Authorities, a Show Cause Notice vide letter reference no. MSEI/INS/RE/01/1060/15-16/6423 dated December 15, 2015, was issued to the Member showing that the Member had prima facie contravened the following provisions:

- 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, 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 as well as Rule 32 of Chapter III of the Rules of the Exchange and 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 mandate the members to submit information to the Exchange

H.S.A.

on its offices etc. The Member had not updated its information with the Exchange.

1.16. 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 1& 2 and other applicable provisions of Chapter V of the Rules of the Exchange.

1.17. The Member was further advised to submit its reply along with the relevant supporting documents latest by December 25, 2015. It was also informed that in case of failing to submit the same it shall be construed that the Member does not have anything to offer and the case shall be placed before the Disciplinary Action Committee in its next meeting and that it shall be informed to the member once the date and venue of the meeting was finalized so as to be given an opportunity to the member to appear before the Committee and present its case.

1.18. The said Show Cause Notice was sent through Registered A.D., Speed Post, Courier and also via email. Details of its dispatch and receipt by the Member are as under:

Sr. No	Name & Address of the Member	Status
1.	RS Financial Services 713 , Arunachal Building 19, Barakhamba Road New Delhi - 110001	Delivered
2.	RS Financial Services,1022A, 10th floor, Hemkunt Chambers 89, Nehru place , New Delhi-110019 Tel: 091-011-23722323	Delivered
3.	Mr. Setu Vashishth, D-79, 1 st Floor, Kalkaji, New Delhi - 110019 Mob No. 9999775593	Delivered

1.19. From the above table it can be seen that although the Member received the Show Cause Notice, he did not respond /communicate with the Exchange.

Vishishth

- 1.20. Since, the Member did not send any reply to the Show Cause Notice, the Exchange issued three reminders to the Member, each giving further one week's time to submit its comments/documents. The reminder letters were sent through Registered A.D., Speed Post, Courier and email. Details of its dispatch and receipt by the member are as under:

Sr. No	Name & Address of the Member	Status
Letter no. MSEI/INS/RE/01/1060/15-16/6534 dated December 29, 2015		
1.	RS Financial Services 1022A, 10th floor, Hemkunt Chambers 89, Nehru place ,New Delhi-110019 Tel: 091-011-23722323	Delivered
	Mr. Setu Vashishth D-79, 1 st Floor, Kalkaji, New Delhi – 110019 Mob No. 9999775593	Delivered
Letter no. MSEI/INS/RE/01/1260/15-16/68 dated January 6, 2016		
2.	RS Financial Services 1022A, 10th floor, Hemkunt Chambers 89, Nehru place ,New Delhi-110019 Tel: 091-011-23722323	Delivered
	Mr. Setu Vashishth D-79, 1st Floor, Kalkaji, New Delhi – 110019 Mob No. 9999775593	Delivered
Letter no. MSEI/INS/RE/01/1260/15-16/278 dated January 14, 2016		
3.	Mr. Setu Vashishth D-79, 1st Floor, Kalkaji, New Delhi – 110019 Mob No. 9999775593	Delivered

- 1.21. Though the Member has received Exchange communications either through email or through Register AD, Speed Post and Courier, still he did not communicate with the

V. S. S.

Exchange. Therefore, the Exchange decided to refer the matter to the Disciplinary Action Committee ("the Committee") for further action in this regard.

- 1.22. Thereafter, the Exchange issued hearing notice vide letter no. MSEI/INS/RE/01/1060/15-16/398 dated January 29, 2016 to the Member which stated that the matter was being placed before the Committee in its meeting 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 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.
- 1.23. However, the Meeting was postponed and the intimation of the same was sent to the Member vide its letter reference no. MSEI/INS/RE/01/1060/15-16/499 dated February 9, 2016.
- 1.24. The meeting was later rescheduled on March 12, 2016. It was intimated to the Member vide its letter reference no. MSEI/INS/RE/01/1060/15-16/822 dated March 1, 2016.
- 1.25. All these letters were received by the Member.

CONSIDERATION OF ISSUES AND FINDINGS:

- 1.26. The Committee first notes that the Exchange has followed up with the Member on numerous occasions and has given multiple opportunities for presenting their case in person before the Committee. The Member 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 opportunities already afforded for making submission in the matter, the Committee inclined to proceed with the matter.
- 1.27. 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

Both

examined all the supporting documents including show cause notice. It has been alleged that the Member did not extend 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.

1.28. 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 directives of SEBI, the Exchange should ascertain that the inactive brokers are not carrying out any other businesses 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.

1.29. The Committee notes that 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.

1.30. 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 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.

V. B. B.

- 1.31. 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-operate with the Inspection Authority 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 Authority.
- 1.32. 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/ a Trading Member should not involve it in any business other than that of securities. It further notes that an inspection notice to that effect was issued on May 13, 2015 in accordance with the requirements of Regulation 8.1 and since the said notice was returned undelivered, the Exchange sent one more letter dated June 2, 2015 on Member's new communication office address as provided by the Company which is operating through the premises viz., 713, Arunachal Building, 19 Barakhamba Road, New Delhi 110001, which was the address of the Member as per Exchange Records. The Committee further notes that the said letter dated June 2, 2015 which was sent by Courier was received by the member on June 4, 2015. The Committee also notes that despite the fact that the Member was informed of the scheduled date for inspection in advance, the Member did not find it necessary to communicate to the Inspection Authorities that it had shifted its Communication Address.
- 1.33. As noted from the sequence of events elaborated in the previous section, the Inspection Authorities have constantly attempted to reach the concerned persons in order to conduct the inspection. However, there has been no co-operation whatsoever from the Member. On the other hand, it is observed that the Member has simply ignored all communication by the Inspection Authorities and the Exchange.
- 1.34. The Committee notes that further to issuance of the Inspection Notice, the Member was given more than ample opportunity 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 R S financial has contravened the aforesaid provisions of the Bye-laws and Regulations of the Exchange.

- 1.35. 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.
- 1.36. 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 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.
- 1.37. Over and above these requirements, Regulation 4.2.1(f) of the 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.
- 1.38. In the present case, the Committee notes that the Member has failed to submit any of the documents as well as did not provide access to Inspection Authorities to the required documents even after the repeated follow up. 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

V. S. S.

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 Exchange Circular No. MCX-SX/MEM/49/2009 dated January 13, 2009 as well as Regulation 16L of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 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 did not make the same available for inspection. 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 required information in terms of Regulation 4.2.1(f) of the CM and F&O Segment of the Exchange. As it is a mandatory requirement for the Members to update the above information with the Exchange. The Member was aware of the above requirements much prior to issuance of the Inspection Notice and the Show Cause Notice.
- 1.39. 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 as well as did not provide access to Inspection Authority to the required documents are sufficient 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 statutory requirements, due to which, it could not verify the required documents and to ensure whether the Member has complied with the Regulatory

requirements. The Committee is therefore of the view that R S Financial failed to comply with the regulatory requirement, therefore it contravened the above said provisions. This contravention may be read in sync with the contravention mentioned above.

- 1.40. Having considered the facts of the case, as elaborated upon above and having established contravention by the Member, the Committee is of the view that the Member is liable for 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, unbusinesslike conduct or unprofessional conduct in the sense of the provision in that behalf contained herein.

- 1.41. 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

V. J. D. S.

required information/documents with the Inspection Authorities/ Exchange. The fact that the requests of the Inspection Authorities were ignored and the Member did not show any hint of inclination towards co-operating with the Authorities cannot be taken lightly by the Committee. The conduct of the Member requires to be severely reprimanded so as to discourage Trading Members from following suit. Additionally, the Committee is of the view that the Member has to be prevented from taking advantage of the leniency afforded to it.

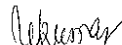
ORDER

- 1.42. After taking into consideration all the facts and circumstances of the case, the Committee hereby suspends the Member viz. RS Financial Services, (Proprietor Mr. Sethu Vashishth), from the membership of the Exchange with immediate effect.
- 1.43. 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 defined in the Inspection Notice and makes all the relevant submissions.

Dated on 22nd day of May 2016.



Thomas Mathew T.



Udai Kumar

