

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

1. Background:

- 1.1 SAARC Net Ltd. (SNL) 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. INE261334937.
- 1.2 SNL had originally applied for membership of the Exchange by an application dated September 7, 2008. Upon consideration of the same, the Exchange provisionally admitted SNL as a member and forwarded its application to SEBI for registration on February 24, 2009 in terms of the SEBI (Stock Brokers and Sub-brokers Regulations, 1992).
- 1.3 SNL till date has not activated his membership on the Exchange.

2. Inspection:

- 2.1 As advised by SEBI, the Exchange in the year 2012-13, carried out inspections of members who are not activated on the Exchange for trading. The purpose of these inspections is to verify whether members carry out any other business other than securities in violation of Rule 8 (1) (f) & 8 (3) (f) of SCRR.
- 2.2 The scope of such inspection was as under:
- i. Compliance with Regulation 8 (1) (f) & 8 (3) (f) of SCRR i.e. (not to deal in commodities / other business other than securities)
 - ii. any unauthorized 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

3. Inspection Observations:

- 3.1 The Inspection of the member viz. Saarc Net Ltd., was conducted by the Exchange on May 21, 2012.
- 3.2 During inspection it was observed that the Member was engaged in business of Computer Hardware & Software (other than securities) in violation of Securities Contract (Regulation) Rules, 1957 (SCRR) - Rule 8(1)(f) and 8(3)(f)

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3.3 Apart from the said discrepancy, following discrepancies were also observed:

Sr No.	Details of discrepancies	In violation of
1	Dilution of promoter's shareholding from 41.46 % as on June 30, 2009 (submitted at the time of registration) to 3.26 % as on March 31, 2012 (available on BSE website) without prior approval of the Exchange	a) SEBI circular no. CIR/MIRSD/14/2011 dated August 2, 2011 b) Exchange circular no. MCX-SX/MEM/633/2011 dated September 12, 2011
2	Changing designated directors without prior approval of the Exchange.	a) Exchange circular no. MCX-SX/MEM/585/2011 dated June 10, 2011 b) SEBI circular no. CIR/MIRSD/2/2011 dated June 3, 2011
3	Not intimating change in Registered and Communication Office to the Exchange	a) SEBI/MIRSD/Cir No. 03/2010 dated January 21, 2010 b) MCX-SX/MEM/275/2010 dated January 28, 2010
4	Not appointing Principal Officer as required by AML guidelines	a) in violation of SEBI Master Circular no. CIR/ISD/AML/3/2010 dated December 31, 2010
5	Not submitting Networth Certificates to the Exchange for : i. September 30, 2010 ii. March 31, 2011 iii. September 30, 2011	a) Exchange circular no. MCX-SX/MEM/361/2010 dated May 24, 2010 b) Exchange circular no. MCX-SX/MEM/458/2010 dated October 22, 2010 c) Exchange circular no. MCX-SX/MEM/652/2011 dated November 1, 2011

4. Show Cause Notice And Hearing:

- 4.1 The above mentioned discrepancies were sent to the member vide letter no. MCX-SX/ISP/RE/07/800/2012-13/7033 dated June 11, 2012.
- 4.2 Since no reply was received from the member, the exchange issued following 3 reminders to the member:
- I. Reminder letter 1 no. MCX-SX/INSP/RE/07/800/2012-13/7787 dated June 19, 2012– advising the member to provide reply by June 26, 2012
 - II. Reminder letter 2 no. MCX-SX/INSP/RE/07/800/2012-13/8516 dated June 27, 2012– advising the member to provide reply by July 4, 2012



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III. Reminder letter 3 no. MCX-SX/INSP/RE/07/800/2012-13/9152 dated July 6, 2012
– advising the member to provide reply by July 13, 2012

- 4.3 All the above mentioned letters were addressed to Mr. Anil C Mistry and Mr. Mahindra A Solanki. These persons were mentioned as Designated Directors in the Inspection Data provided by Member's Compliance Officer Mr. Ashok Mishra, vide email dated May 22, 2012.
- 4.4 Due to non-receipt of any response from the Member, the Exchange had also forwarded the entire communication to Mr. Govind Sharda vide letter no. MCX-SX/INSP/RE/07/800/2012-13/9231 dated July 9, 2012 since as per Exchange records, Mr Sharda is the Designated Director. Mr. Sharda was advised to furnish his comments on the Exchange observations, latest by July 16, 2012. The said letter was received by Mr. Ashok Mishra (Compliance Officer) on July 11, 2012, however no reply has been received from either Mr. Govind Sharda or any of the purported new Designated Directors or any other representative of the Member.
- 4.5 Vide the aforesaid letters the Member was informed that in case of failure to submit any reply, the Exchange would be constrained to initiate action against the member.
- 4.6 However, no reply was received from the member, and Exchange issued a Show Cause Notice to the Member vide letter no. MCX-SX/INSP/RE/07/800/2012-13/10229 dated July 23, 2012.
- 4.7 The Member was advised to show cause as to why disciplinary action should not be taken against them in accordance with Rules 1 & 2 and other applicable provisions of Chapter V of the Rules of the Exchange, which may cause them expulsion from the membership of the exchange

5. Reply from the Member:

- 5.1 In reply to the Show Cause Notice, the member replied vide email on September 4, 2012 stating that "they would like to effect the change in the Management of Company" and also requested the Exchange to provide necessary forms for Change of Management of the Company.
- 5.2 The Exchange vide email dated September 6, 2012, sent the forms for post-facto approval of Change in the Management. However, till date no reply/communication or application has been received from the Member.

6. Hearing notice to the Member:



- 6.1 In spite of several telephonic follow-ups by the Exchange with the member, no communication or application for change in management was received from the member. Thereafter, the Exchange vide letter dated October 11, 2012 sent a notice under rule 1 & 2 of Chapter V of the Rules of the Exchange to the member informing him that in absence of any response or communication from the member, the Exchange has decided to refer the matter to the Disciplinary Action Committee (DAC) and in case the member does not appear before the DAC then the case was to be decided based on material available on record with the Exchange.
- 6.2 An opportunity for personal hearing was accorded to the member vide notice dated December 03, 2012 informing the date of DAC sent at its registered office to the attention of Mr. Anil C. Mistry and Mr. Mahindra A. Solanki through multiple modes i.e. post, courier and email. The email was been duly received by the member. The letter sent by courier has been returned with an endorsement "Shifted".
- 7. Placing of the matter before the Committee :**
- 7.1 The matter was placed before the Committee in its meeting held on December 18, 2012.
- 7.2 Neither the member nor any of its representatives attended the Meeting.
- 7.3 The Committee then tried to talk to the Directors viz. Mr. Anil C. Mistry and Mr. Mahindra A. Solanki over phone during the meeting, however due to disturbance in the connection no conversation could take place between the Committee Members and the Directors of the Member.
- 7.4 Committee then decided to give one more opportunity to the member to appear before the Committee for Personal Hearing in its next meeting.
- 7.5 The Exchange vide letter dated March 8, 2013 sent a notice under rule 1 & 2 of Chapter V of the Rules of the Exchange to the member informing him to be present for the next meeting to be held on March 22, 2013 failing which the matter shall be decided based on materials available on records.
- 7.6 This notice was sent through Registered AD post, Courier on Member's correspondence address in Delhi viz. 39, 2nd Floor, Sadhna Enclave, Malviya Nagar, New Delhi 110 017 and to its another office situated at Ahmedabad viz. 803, Samedh Building, Near Associated Petrol Pump, CG Road, Ahmedabad 380006. A scanned copy of the letter was also sent by email on saarnetltd@gmail.com.
- 7.7 The letter sent to member's registered office at Delhi through courier was returned with a remark 'party shifted.'



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- 7.8 The letter sent to member's office at Ahmedbad was received by one Mr. Dinesh on March 14, 2013. Though no acknowledgement stamp was provided, Mr. Dinesh signed the letter and mentioned mobile number of Mr Anil Mistry (9426569262) along with date of receipt.
- 7.9 The matter was placed before the Disciplinary Action Committee on March 22, 2013. One of the directors of the member, Mr. Niraj Topiya, had attended the meeting via video conferencing from the Exchange's Ahmedabad Branch office.
- 7.10 During the meeting, the member had agreed to complete the documentation for Change in Control and then surrender the Membership of the Exchange.
- 7.11 Mr. Topiya made a request that the fees for surrender and transfer may be waived to facilitate the same. The Committee decided that 'SNL' may be granted waiver of transfer fees of Rs. 1 lakh payable on account of the change in control that took place. Upon receipt of the requisite papers for transfer of membership for change in control and post facto approval by SEBI, the member was required to submit the necessary papers for surrender of his membership. The surrender fee of Rs. 50,000/- was payable by the member and would not be waived off.
- 7.12 As requested by the member, the Exchange on April 9, 2013 had forwarded the formats of documents required for change in control and surrender of membership.
- 7.13 The Exchange tried to contact the member on several occasions after sending the required formats. The Exchange also sent reminder emails to the member on April 17, 2013, April 25, 2013, May 6, 2013, and May 14, 2013.
- 7.14 Subsequently, when the member could be reached, the director, Mr. Niraj Topiya provided another email id and requested the Exchange to send the required documents on the said email id and the same were sent by the Exchange immediately. However, no response from the member is received till date.
- 7.15 Subsequently, the Exchange officials tried to contact the member on phone, but the member did not answer the calls.
- 7.16 On May 14, 2013, the Exchange was able contact the member. Mr. Niraj Topiya had then stated that he was on vacation and is yet to see the email from the Exchange and also the staff members from his office are on exam leave and hence the documentation part will take some more time.
- 7.17 The matter was once again placed before the Disciplinary Action Committee on May 20, 2013 wherein it was decided to give a final chance to complete the documentation for post facto change in control and commence the process of surrendering the



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Membership. Hence a reminder letter was sent to the member by the Exchange vide letter no. MCX-SX/INSP/800/2013/8004 dated May 22, 2013 giving 30 days time to the member from the receipt of the letter to complete the documentation. However, till date no communication is received from the member.

- 7.18 The matter was again placed before the Disciplinary Action Committee on September 20, 2013
- 7.19 Considering the above circumstances, the Committee had decided to expel the Member.
- 7.20 Since the Disciplinary Action Committee was reconstituted, the matter was decided to be placed again before the committee on December 13, 2013. The member was advised, vide letter no. MCX-SX/INSP/800/2013/20390 dated November 21, 2013, to appear before the Committee and present their case.
- 7.21 The designated director of the member, Mr. Anil Mistry appeared before the committee via video conference from the Exchange's Ahmedabad branch office on December 13, 2013.
- 7.22 In the meeting, Mr. Anil Mistry again stated that they would complete the processes pertaining to change of control, change of designated directors and submit the application for surrender.
- 7.23 The Committee deliberated on the matter and decided that the member may be given a final deadline of 15 days from the date of the meeting to initiate the proceedings failing which the member would be expelled from the membership of the Exchange.

8. Considerations

The following facts and records have been considered by the committee while arriving at the decision of the case

- 8.1 The Exchange has issued the following letters to the member during the entire inspection proceedings
 - 8.1.1 Observation letter intimating the inspection observations dated June 11, 2012 addressed to Mr. Anil Mistry and Mr. Mahindra A Solanki
 - 8.1.2 Three reminder letters dated June 19, 2012, June 27, 2012 and July 13, 2012 seeking reply on the observations communicated vide the letter June 11, 2012 addressed to Mr. Anil Mistry and Mr. Mahindra A Solanki



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- 8.1.3 One set of correspondence vide letter dated July 9, 2012 addressed to Mr. Govind Sharda, Designated Director of the member as per exchange records dated March 31, 2010. A scanned copy of the same set of correspondence sent by email on July 12, 2012 to Mr. Govind Sharda on his email ID viz. govind.sharda@gmail.com and csarmishra@gmail.com.
- 8.1.4 Show cause notice dated July 23, 2012 seeking explanation as to why disciplinary should not be initiated against the member. A scanned copy of the same set of correspondence sent by email on July 24, 2012 to Mr. Govind Sharda on his email ID viz. govind.sharda@gmail.com and csarmishra@gmail.com
- 8.1.5 Email from member on September 4, 2012 expressing intent to start control change process and asking for formats to do the same
- 8.1.6 Email from Exchange on September 6, 2012 providing the necessary formats
- 8.1.7 Numerous telephonic follow ups seeking submissions from the member
- 8.1.8 Intimation of decision on October 11, 2012 to place matter before DAC for non reply to Exchange communication.
- 8.1.9 First notice dated December 3, 2012 for personal hearing before DAC on December 18, 2012
- 8.1.10 Second notice dated March 8, 2013 for personal hearing before DAC on March 22, 2013 subsequent to non appearance as directed in first notice
- 8.1.11 Third notice dated September 16, 2013 for personal hearing before DAC on September 20, 2013 subsequent to non fulfillment of directions of DAC in preceding meeting
- 8.1.12 Fourth notice dated November 21, 2013 for personal hearing before DAC on December 13, 2013 subsequent to non appearance as directed in third notice
- 8.2 The Exchange had also done numerous telephonic follow ups during the entire process.



9. Decision

- 9.1 We note that the Exchange has followed up with the member on numerous occasions and was given due opportunities for presenting their case in person before the DAC of the Exchange. It is also evident that the principle of natural justice was aptly followed by the Exchange in its approach.
- 9.2 From the aforesaid series of events it is clear that the member has deliberately procrastinated over the pending issues and is avoiding completing the process to comply with relevant Rules, Regulations and Bye-Laws of the Exchange and the Securities Contract Regulation Rules, 1957.
- 9.3 Rule 1 and 2 of Chapter 5 of the Rules of the Exchange, provides that
- 9.3.1 **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"*
- 9.3.2 **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.*

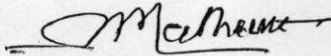


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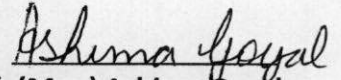
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- 9.4 Considering the series of events, the provisions of the rules of the exchange and the non inclination of the member to comply with the requirements of the Exchange and SCRR, 1957, we hereby direct that the member be expelled from the membership of the exchange with immediate effect.

Dated on this 31st day of March, 2014



Thomas Mathew T.



Prof. (Mrs.) Ashima Goyal

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For MCX-Stock Exchange Ltd.



Company Secretary