

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

SETTLEMENT ORDER

On the Application No. 1523 of 2009
filed by

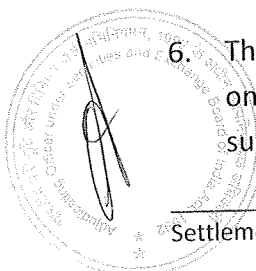
M/s Indiabulls Securities Ltd.
(PAN No. AAACO0870B)

Consent Order No: MIRSD/EAD-6/AO/AK/ 229 /2014

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted an inspection of the books of accounts and other records of **M/s. Indiabulls Securities Ltd.** (hereinafter referred to as '**the Applicant**') during November 2006. The inspection found certain irregularities relating to the Applicant's broking operations, the functioning of its branches and its systems operations, *inter alia* including non/ delayed submission of information to SEBI; not facilitating inspecting officials an unhindered access to the server; not providing assistance to the inspecting team and interference during the recordings of officials of Applicant; failure to maintain proper records pertaining to investor complaints; appointment of unregistered sub brokers in the guise of "marketing associates"; allotting multiple client codes; delay/ lack of communication in making margin calls to the clients and non-maintenance of records pertaining to margin calls; providing margin trading facility to clients indirectly prior to obtaining permission for the same from the exchanges; financing clients' transactions by providing its own funds as well as obtaining funds from its group companies; not exercising due skill and care in financing and trading of its top 10 clients and while deactivation of the clients' account; charging interest from clients on delayed payment despite having deposited shares with the broker; charging higher interest for margin trading from clients than the rate mentioned in the agreement; allocation of dedicated telephone lines to persons other than dealers; having an incentive based business model for sale representatives with a focus on making the investors trade as frequently as possible and lapses in inward/ outward mailing systems.
2. In view of the lapses/ deficiencies observed, a show cause notice bearing no AO/PS/DM/IBSL/169301/2009 dated July 10, 2009 was issued to the Applicant by the Adjudicating Officer for the alleged violation of Regulation 21 of Securities and Exchange

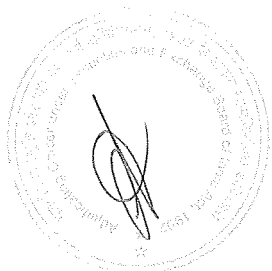
Board of India (Stock Brokers and Sub brokers) Regulations, 1992; Clauses A (1) and A(2) of Code of Conduct specified in Schedule II read with regulation 7 of the Securities and Exchange Board of India (Stock Brokers and Sub brokers) Regulations 1992; SEBI Circular no. SMD-I/3118 dated December 27, 1993, SEBI circular no. SMD/policy/Cir/3/97 dated March 31, 1997, SEBI Circular no. SMDRO/Policy/CIR-39/2001 dated July 18, 2001, SEBI Circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003; SEBI circular no. SEBI/MRD/SE/SU/Cir-15/04 dated March 19, 2004; NSE Circular no. NSE/INSP/2005/42 dated December 9, 2005 read with Clause A(2) of Code of Conduct specified in Schedule II of Regulation 7 of Securities and Exchange Board of India (Stock Brokers and Sub Brokers) Regulations, 1992 and Para B(4) of the Code of Conduct specified in Schedule II read with Regulation 7 of the Securities and Exchange Board of India (Stock Brokers and Sub brokers) Regulations, 1992.

3. While the Adjudication Proceedings pursuant to the said SCN were in progress, the Applicant vide application dated September 03, 2009 proposed settlement of the said proceedings through a Consent Order in terms of the SEBI Circular No. EFD/ED/Cir-1/2007 dated April 20, 2007, modified by the circular dated May 25, 2012, which is rescinded by the SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014, proposing to settle through a consent order the aforementioned adjudication proceedings initiated vide show cause notice dated July 10, 2009.
4. The representatives of the applicant appeared before the Internal Committee (IC) of SEBI where the terms of settlement were deliberated upon. Thereafter, the Applicant vide letter dated June 03, 2011 *inter alia* proposed the revised consent terms to settle the aforesaid adjudication proceedings for the alleged violations by offering to pay a sum of Rs. 1,00,00,000/- (Rupees One Crore only) towards settlement charges.
5. The High Powered Advisory Committee (hereinafter referred to as 'HPAC') in its meeting held on July 21, 2011, after examining the compliance certificate submitted by the applicant from an auditor chosen by it, suggested that such a certificate should be produced from an auditor appointed by SEBI clearly certifying that the various irregularities pointed out in the inspection report have been duly rectified/complied to the satisfaction of SEBI. Pending submission of such certificate by SEBI, the matter was deferred for consideration.
6. The said recommendation of the HPAC was accepted by the panel of members of the Board on August 22, 2011. In view of the same, SEBI took up the matter for necessary action as suggested by HPAC. Accordingly, SEBI sought the internal audit reports filed by the



Applicant with NSE/ BSE for the half year ending March 31, 2009 and September 30, 2009. Further, the latest reports of inspection of the Applicant carried out by NSE/ BSE were also sought, in order to examine the compliance. However, it was noted that while some of the issues raised in the SEBI Inspection Report were addressed, there was no finding regarding other observations. Therefore, the Exchanges were advised to carry out a special purpose inspection of the Applicant to verify the status of compliance and submit a report to SEBI at the earliest. However, on perusal of the exchange inspection report, it was felt that the issues were still not adequately addressed. Thereafter, a special purpose inspection was conducted by SEBI. The findings of the said special purpose inspection were communicated to the applicant. Based on the clarifications provided by the applicant, it was concluded that the applicant has complied with the issues raised during inspection.

7. The Consent Application was again placed before the HPAC in its meeting held on February 21, 2014. The HPAC deferred the matter requesting for additional information with regard to investor complaints, etc. and the basis of the calculation of settlement terms. The same was furnished and the matter was again placed for the consideration of the HPAC in its meeting held on September 26, 2014. The HPAC considered the same and the settlement terms proposed by the applicant and recommended that the case for settlement upon payment of Rs. 1,00,00,000/- (**Rupees One Crore only**) towards settlement charges. The Panel of Whole Time Members of SEBI accepted the said recommendations of the HPAC and the same was communicated to the Applicant vide letter dated November 24, 2014.
8. Accordingly, the Applicant has vide demand draft No. '494591' dated November 28, 2014 drawn on 'HDFC Bank' and payable at Mumbai, remitted a sum Rs. 1,00,00,000/- (Rupees One Crore only) towards the settlement charges.
9. In view of the above, in terms of Regulation 15 (1) of SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 it is hereby ordered that:
 - i. this Consent Order disposes of the said Adjudication Proceedings pending in respect of the Applicant as mentioned above and;
 - ii. passing of this Order is without prejudice to the right of SEBI to take enforcement actions including commencing / reopening of the pending proceedings against the Applicant, if SEBI finds that:
 - a. any representations made by the Applicant in the consent proceedings are subsequently discovered to be untrue;
 - b. the Applicant has breached any of the clauses / conditions of undertakings / waivers filed during the current consent proceedings.



10. This consent order is passed on this **Nineteenth day of December, 2014** and shall come into force with immediate effect.

11. In terms of Regulation 17 of SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014, copies of this order are being sent to the Applicant and also to Securities and Exchange Board of India, Mumbai.


Anita Kenkare
Adjudicating Officer

Place: Mumbai

