

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
MUMBAI**

CONSENT ORDER

ON THE APPLICATION SUBMITTED BY

**RELIANCE SECURITIES LIMITED
(PAN No. AADCR0260P)**

IN THE MATTER OF

**ENQUIRY AND CEASE AND DESIST PROCEEDINGS AGAINST RELIANCE
SECURITIES LIMITED**

(CONSENT APPLICATION NO. 2122 OF 2010)

1. Securities and Exchange Board of India (SEBI) had conducted an inspection of the books of accounts and other records of M/s Reliance Securities Limited (hereinafter referred to as "the applicant"), a trading member of BSE [Registration No. (BSE Cash-INB011234839), (BSE Derivatives-INF011234839) & (BSE Currency Derivatives-INE011234839)], NSE [Registration No. (NSE Cash-INB231234833), (NSE Derivatives-INF231234833) & (NSE Currency Derivatives-INE231234833)] and MCX-SX Currency Derivatives- INE261234833 for the period of April 01, 2007 to March 31, 2009. The inspection, prima facie, revealed the following irregularities:

- (a) Applicant did not have any documentary proof like leave and license agreement, proof of payment of rent/ownership of office, for their Thane branch office.

- (b) The dealers operating the trading terminals were not the employees of applicant but were the employees of Syntel global Ltd.
- (c) Applicant allotted more than one terminal in the same segment to a single user.
- (d) Consent for receiving Electronic Contract Note (ECN) was included in the mandatory clauses of Member client agreement. No option was provided to the clients to choose between ECN and physical contract notes.
- (e) Applicant collected cheques in the name of Reliance Money Ltd.
- (f) Applicant collected excess Securities Transaction Tax (STT) from the clients during 2006-2008.
- (g) Applicant did not inform the various charges to the clients at the time of client registration leading to large number of investor complaints.
- (h) Applicant received funds from other than the client bank accounts available with it, thus not having a sound third party check for receipts of payments.
- (i) Frequent disruption in internet trading platform which showed Network/Connectivity problems at applicant's end.
- (j) The applicant was found to be only 50% equipped to handle its then customer base, as observed in the then system audit report pointing towards inadequate system/network in place.
- (k) Applicant issued undated letters to different organizations on many occasions.
- (l) Even after pointed out in the NSE and BSE inspection reports, applicant did not update its client master with the client details.
- (m) Applicant took Power of Attorney in the name of Reliance Commodities Ltd from its clients and used to take general Power of Attorney to debit clients bank account, purchase and sale, of post office deposits, LIC, GOI bonds etc

- (n) Applicant executed DVP trades not covered within the exceptions provided for.
- (o) Applicant did not maintain clear segregation between broking and other activities of group companies.
- (p) Applicant did not take adequate steps to redress the complaints within 30 days of the receipt of the same.
- (q) Applicant delayed in updating the online client ledger in its online trading system.
- (r) Applicant did not display the trading member name board at its offices and instead displayed the Reliance Money name board.
- (s) Applicant outsourced amongst other things, its call centre activities which handled calls for tele-trading.
- (t) Applicant used the name of 'Reliance Money' at all its offices, visiting cards of its employees, website, letter heads, etc., which created confusion in the minds of the investors as to whether 'Reliance Money' or 'RSL' was the registered intermediary.

The applicant was therefore alleged to have violated various clauses of the Code of Conduct prescribed under Schedule II read with regulation 7 of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 and the relevant circulars issued by SEBI.

2. In view of the above findings, SEBI ordered enquiry proceedings under the SEBI (Intermediaries) Regulations, 2008, and cease and desist proceedings under section 11D of the SEBI Act, 1992. A show cause notice dated August 09, 2010 under the enquiry proceedings and August 31, 2010 under the cease and desist proceedings were issued to the applicant alleging violation of the provisions of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 and the relevant SEBI Circulars.

3. While further proceedings in the matter were in progress, the applicant, vide application dated September 14, 2010, requested for settlement of these proceedings through a consent order in terms of SEBI circular No.EFD/ED/Cir.01 dated April 20, 2007. The applicant proposed revised terms of consent vide letter dated December 07, 2010. The High Powered Advisory Committee constituted by SEBI considered the terms proposed by the applicant and recommended the case for settlement. As per the terms of settlement:

- (a) The applicant will not register new clients for a period of 45 days;
- (b) That the applicant will pay ₹ 25,00,000/- (Rupees Twenty Five Lakh Only) towards settlement charges; and
- (c) That applicant will spend a sum of ₹ 1 crore on investor education and awareness programme and on development of materials focusing on making investors more aware of their rights in connection with internet based trading in securities market. Such amount shall be expended towards this end within a period of six months from the date of receipt of the consent order passed by SEBI. The applicant will submit an auditor's certificate to the satisfaction of SEBI in this regard after the end of the said period.

The specially constituted panel of Whole Time Members accepted the said recommendations which were communicated to the applicant vide letter dated April 19, 2011.

4. For the sole purpose of settling the matter on hand and without admission or denial of guilt on the part of the applicant, the applicant has remitted a sum of ₹ 25,00,000/- (Rupees Twenty Five Lakh only) vide demand draft No. 409564 dated June 01, 2011 drawn on HDFC Bank Limited, Mumbai towards the settlement charges.

5. In view of the above, it is hereby ordered that this consent order disposes of the said enquiry proceedings and cease and desist proceedings pending before SEBI initiated vide show cause notices dated August 09, 2010 and August 31, 2010 respectively against the applicant for the violations mentioned earlier.
6. This order is without prejudice to the right of SEBI to take enforcement actions, including commencing or reopening pending proceedings against the applicant, if:
 - i. any representation made by the applicant in this consent proceeding is subsequently discovered to be untrue; or
 - ii. the applicant breaches any of the clauses/conditions of undertakings/ waivers filed during this consent proceeding.
7. A copy of the order shall be served on Bombay Stock Exchange Limited, National Stock Exchange Limited and MCX Stock Exchange Limited of which the applicant is a trading member.
8. This consent order is passed on the 9th day of June, 2011 and shall come into force after 7 days from the date of receipt of this order.

K. M. ABRAHAM
WHOLE TIME MEMBER

PRASHANT SARAN
WHOLE TIME MEMBER