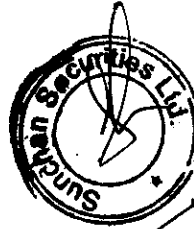


Investor Services

Bv Registered / courier / COP / FaxRef. No. DIS/SK/0910/307427<sup>th</sup> July, 2009

✓ Sunchan Securities Limited,  
(Clearing No. 977)  
201, Hiren Industrial Estate,  
2<sup>nd</sup> Floor, Mogul Lane,  
Mahim (West),  
Mumbai – 400016.



Sirs,

**Sub: Declaration of Sunchan Securities Limited, a Defaulter and its Expulsion.**

1. We refer to our Show Cause Notice Ref. No. DOSS/INSP/YB/977/IR/2008-09/628 dated 6<sup>th</sup> February, 2009; Notice Ref. No. DIS/ABMC/0910/2543 dated 17<sup>th</sup> June, 2009; letter Ref. No. DIS/ABMC/2576/2009 dated 2<sup>nd</sup> July, 2009; letter Ref. No. IS/ABMC/09-10/2684 dated 6<sup>th</sup> July, 2009 and letter Ref. No. IS/ABMC/09-10/2844 dated 9<sup>th</sup> July, 2009.


We also refer to your letters dated 17<sup>th</sup> February, 2009, 2<sup>nd</sup> July, 2009 as well as your submissions made personally before the Disciplinary Action Committee (DAC) during its meeting held on 11<sup>th</sup> July, 2009.

2. The DAC, during its meeting held on 11<sup>th</sup> July, 2009, after considering the documents you submitted and the documents on record (including various Arbitration Awards against you) and personal submissions of Mr. Mansinghani and Mr. Riyaz Shaikh, Designated Director and Compliance Officer of your company respectively, pursuant to an opportunity of being heard given by the Exchange to appear before the DAC on 2<sup>nd</sup> and 11<sup>th</sup> July, 2009 and after considering the facts relating to outstanding liabilities arising from the Arbitration Awards amounting to Rs.98.37 lakhs approximately against you as well as the fact that the Trading Member has been expelled by the NSE and after recording the reasons (A copy of the relevant extract of the minutes of DAC's meeting held on 11<sup>th</sup> July, 2009 is enclosed as 'Annexure A') decided as follows in accordance with the powers conferred on it under the Rules, Byelaws and Regulations of the Exchange.

A) That Sunchan Securities Ltd. be and is hereby declared a 'Defaulter' as provided under the Rules, Bye-laws & Regulations of the Exchange, with effect from Saturday, 11<sup>th</sup> July, 2009 on account of its failure to deposit the awarded amounts with the Exchange in respect of Arbitration Awards passed against it and thereby its inability to discharge its obligations and liabilities towards the said Arbitration Awards.

B) That Sunchan Securities Ltd. be and is hereby expelled from the trading membership as provided under the Rules, Bye-laws & Regulations of the Exchange, with effect from Saturday, 11<sup>th</sup> July, 2009, to comply with the requirements specified vide Circular No. F.No.1/26/SE/91 dated 12<sup>th</sup> August, 1991 issued by the Ministry of Finance (Department of Economic Affairs), Government of India and the Circular No. SMD/Policy/Cir-24/97 dated 26<sup>th</sup>

September, 1997 issued by the Securities and Exchange Board of India (SEBI) in that respect; as the National Stock Exchange of India Limited (NSE), vide its Circular No.677, Ref. No. NSE/MEM/12415 dated 18<sup>th</sup> May, 2009 expelled Sunchan Securities Limited with effect from 18<sup>th</sup> May, 2009.

  
Sanjiv Kapur,  
General Manager

  
Arun K. Dolas  
Dy. General Manager

Encl.: Annexure A

c.c. to :

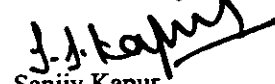
Mr. Piyush Gupta,  
General Manager – MIRSD-DPS-I  
Securities and Exchange Board of India,  
SEBI Bhavan, C-4A, G-Block,  
Bandra Kurla Complex,  
Mumbai – 400051.


Sir,

In continuation to our letter Ref. No. IS/CAM/SK/AKD/08-09/ dated 23<sup>rd</sup> January, 2009, we are forwarding a copy of this letter for your information please.

Thanking you,

Yours faithfully,

  
Sanjiv Kapur,  
General Manager

  
Arun K. Dolas  
Dy. General Manager

Encl.: Annexure A

**Relevant portion of the minutes recording the facts and the reasons applied by the Disciplinary Action Committee of the Exchange in deciding on matter of declaring Sunchan Securities Limited (Clearing No. 977) a Defaulter and its Expulsion, during its meeting held at 10 AM on Saturday, July 11, 2009.**

1. The Disciplinary Action Committee (DAC) of the Exchange noted that the Exchange carried out limited purpose (special) inspection of the books of accounts and other documents of Sunchan Securities Limited (hereinafter referred to as "The Trading Member") during the month of November, 2008 and on 22<sup>nd</sup> January, 2009 and issued it a Show Cause Notice No. DOSS /INSP /YB/ 977/ IR/ 2008-09/628 dated 6<sup>th</sup> February, 2009, inter-alia, citing various observations; of which a few relevant observations are mentioned hereinbelow. The Exchange, vide the said Show Cause Notice directed the Trading Member to Show Cause as to why the Trading Member should not be declared a defaulter under the applicable Bye Law of the Rules, Bye Laws and Regulations of the Exchange and / or why disciplinary action including suspension and / or expulsion or withdrawal of all or any membership rights or any other action should not be taken against the Trading Member for its conduct, under the applicable Bye Law and other relevant Rules, Byelaws and Regulations of the Exchange including violation of the applicable Bye Law.

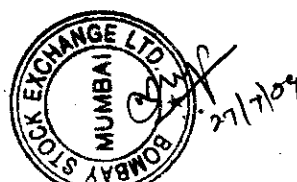
- a) The Exchange forwarded about 105 investors' complaints against the Trading Member, for claims aggregating to about Rs. 3.05 Crores, most of which were on account of non-receipt of delivery of share from the Trading Member.

The Trading Member transferred the shares purchased by its clients to the custody of M/s SMC Global Securities P. Ltd, its Clearing Member for the Futures and Options Segment of the National Stock Exchange of India Limited (NSE), which sold those shares without clients' instructions and wrongfully retained sale proceeds thereof with it and the Trading Member offered no clarification for doing it.

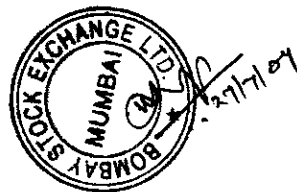
- b) The Exchange also forwarded to the Trading Member, 20 Arbitration References aggregating to about Rs.1.57 Crores, filed against it by its clients.
- c) The Exchange advised The Trading Member to renew the Bank Guarantee of Rs. 10 lakhs maturing on 30<sup>th</sup> January, 2009 to safeguard the interest of the investors in view of large number of investors' complaints and Arbitration References filed against the Trading Member and that the Trading Member expressed its inability to renew the said Bank Guarantee of Rs.10 lakhs, vide its letter dated 28<sup>th</sup> January 2009.
- d) The Exchange is in possession of claims with supporting documents sufficient to form an opinion that the Trading Member may not be in a position to meet, satisfy, discharge or fulfill its obligations and liabilities towards its clients.

2. The Trading Member replied to the aforesaid Show Cause Notice dated 6<sup>th</sup> February, 2009, inter-alia, as follows vide its letter dated 17<sup>th</sup> February, 2009:

- a) Due to sudden closure of the Trading Member's terminals by the NSE on 12<sup>th</sup> November, 2008, there was panic amongst its clients due to which it was facing the problem of collection of dues from its clients.



- b) After the closure of the business of the Trading Member, it transferred (to clients) Rs. 7.5 lakhs and shares worth approximately Rs. 80 lakhs.
  - c) The Trading Member filed claim of Rs. 11.45 Crores against its Clearing Member, SMC Global at NSE. The Trading Member issued notices to its debtors for recovery of dues amounting to Rs.7.53 Crores; initiated actions under section 138 of the Negotiable Instruments Act for recovery of an amount of Rs.55 lacs against its clients whose cheques were dishonored and filed arbitrations against its clients at NSE for recovery of an amount of Rs. 15.34 lacs.
  - d) The Trading Member was attending to each complaint through letters and by attending the Investors Grievances Redressal Committee meetings at BSE.
  - e) The clients' claims were inflated since they lodged claims at purchase price, whereas the value of the shares had fallen drastically over a period of time.
  - f) The Trading Member already requested for voluntary disablement of trading on 25<sup>th</sup> November, 2008 and that declaring it a defaulter would make it more difficult for it to collect dues from its debtors which shall hamper its efforts of satisfying its creditors.
3. The Securities and Exchange Board of India (SEBI), vide its Order No.WTM/MSS/MIRSD/DPAS-I/160/09 dated 30<sup>th</sup> January, 2009, inter-alia, barred the Trading Member and its directors from dealing in securities in any manner in view of various irregularities found during limited inspections conducted by NSE and BSE, as mentioned in detail in the said Order.
  4. In view of failure of the Trading Member to comply with various Arbitration Awards given against it and in view of expulsion of the Trading Member by the NSE vide its Circular No. 677, Ref. No. NSE/MEM/12415 dated 18<sup>th</sup> May, 2009, the Exchange, thereafter advised the Trading Member vide Notice Ref. No. DIS/ABMC/0910/2543 dated 17<sup>th</sup> June, 2009 to remain present before the DAC, for making personal submissions during its meetings held on 2<sup>nd</sup> July, 2009. The Exchange informed the Trading Member as follows vide its aforesaid Notice of Hearing dated 17<sup>th</sup> June, 2009 that:
    - a. The Trading Member failed to deposit any amount against 39 Arbitration Awards aggregating to Rs.1,35,07,575.09, passed on various dates in arbitration references filed against it by its clients and due from the Trading Member for setting aside under the Rules, Bye Laws and Regulations of the Exchange.
    - b. The Exchange invoked Bank Guarantees of Rs. 85,00,000 for complying with the Arbitration Awards.
    - c. As on 9<sup>th</sup> June, 2009, the Trading Member's crystallized liabilities exceeded its assets with the Exchange by Rs.54,74,831.09. Besides, arbitration references for claims aggregating to approximately Rs. 3.82 Crores were filed by its clients and were under process.



- d. The Trading Member was expelled from the NSE, vide its Circular No. 677, Ref. No. NSE/MEM/12415 dated 18<sup>th</sup> May, 2009, in terms of Chapter IV of the NSE Rules. As per Circular No. F.No.1/26/SE/91 dated 12<sup>th</sup> August, 1991 issued by Ministry of Finance, Government of India read with SEBI's Circular No. SMD/Policy/Cir-24/97 dated 26<sup>th</sup> September, 1997, if a member is expelled from one stock exchange, it would automatically stand expelled from all other stock exchanges where it is a member.
- e. The Exchange sought from the Trading Member, an explanation as to why the Trading Member should not be declared a defaulter and / or expelled and / or any other disciplinary action should not be taken against it in terms of the aforesaid Show Cause Notice given earlier and why the Trading Member should not be expelled from the Exchange, pursuant to its expulsion from the NSE.
5. The DAC, during its meeting held on 2<sup>nd</sup> July, 2009 considered the Trading Member's letter dated 2<sup>nd</sup> July, 2009 for postponement of hearing, Exchange's mail / letter sent to it on the same day as well as the aforesaid Notice of Hearing dated 17<sup>th</sup> June, 2009 and decided to give the Trading Member, an opportunity of hearing on 11<sup>th</sup> July, 2009 and that accordingly, the Exchange intimated the Trading Member vide its letters Ref. No. IS/ABMC/09-10/2684 dated 6<sup>th</sup> July, 2009 and letter Ref. No. IS/ABMC/09-10/2844 dated 9<sup>th</sup> July, 2009.
6. The DAC considered the Exchange's Notes dated 23<sup>rd</sup> June and 6<sup>th</sup> July, 2009, a Statement of Assets and Liabilities as on 10<sup>th</sup> July, 2009. The DAC observed from the said Statement that the Exchange had utilized assets of the Trading Member available with the Exchange towards Arbitration Awards on FIFO basis and for recovery of SEBI / Exchange dues and that the Trading Member had no assets with the Exchange as on 10<sup>th</sup> July, 2009 to meet its obligations towards 47 Arbitration Awards given against it, aggregating to Rs.98,37,203.96.
7. The DAC advised Mr. Sunil Mansinghani and Mr. Riyaz Shaikh, Designated Director and Compliance Officer of Sunchan Securities Ltd. respectively, to make submissions on the matter on behalf of the Trading Member.

The Department handed over to Mr. Mansinghani, a copy of Statement of assets and Liabilities as on 10<sup>th</sup> July, 2009; which indicated an amount of Rs. 98,37,203.96 due from the Trading Member against 47 Awards given against it till 10<sup>th</sup> July, 2009 and that 35 Arbitration References aggregating to claims of Rs. 2,66,02,256.82 were in the process of being heard before the Arbitral Tribunals of the Exchange.

Mr. Mansinghani expressed that the Trading Member is a Broker, both of NSE and BSE and admitted that the Trading Member could not meet its obligations towards the Arbitration Awards issued against it at BSE. The Trading Member also stated that it was not able to recover dues from its clients / Brokers which dealt in Futures and Options at NSE. Mr. Mansinghani acknowledged that its clients had filed arbitration references against it in the Cash Segment at NSE also and that he could not confirm the claim amount so filed at NSE. Mr. Mansinghani, accepted that Sunchan Securities Limited had been expelled by the NSE and that he had no further explanation on the matter.



8. The DAC, taking into account the overall liabilities, observed that :
- A) The Exchange was holding with it, collateral deposits and base minimum capital amounting to Rs. 95 lakhs kept by the Trading Member; which was utilized by the Exchange towards setting aside the amounts against the Arbitration Awards and for recovery of SEBI and the Exchange dues, under the Rules, Bye Laws and Regulations of the Exchange.
  - B) The Trading Member is unable to discharge it's obligations towards compliance of 47 Arbitration Awards aggregating to Rs. 98,37,203.96 and that 35 Arbitration References aggregating to claims of Rs.2,66,02,256.82 are in the process of being heard and that the Trading Member has admittedly no means to fulfill those obligations.
  - C) The Trading Member, is expelled by the NSE as notified vide NSE Circular No.677, Ref. No. NSE/MEM/12415 dated 18<sup>th</sup> May, 2009
9. The DAC, after considering the documents submitted by the Trading Member and the documents on record (including various Arbitration Awards against the Trading Member) and personal submissions of Mr. Mansinghani and Mr. Riyaz Shaikh, Designated Director and Compliance Officer of the Trading Member respectively, pursuant to an opportunity of being heard given by the Exchange to appear before the DAC on 2<sup>nd</sup> and 11<sup>th</sup> July, 2009 and after considering the facts relating to outstanding liabilities arising from the Arbitration Awards amounting to Rs.98.37 lakhs approximately against the Trading Member as well as the fact that the Trading Member has been expelled by the NSE and after recording the reasons mentioned hereinabove, decided as follows in accordance with the powers conferred on it under the Rules, Bylaws and Regulations of the Exchange

**DECISION TAKEN:**

- A) That Sunchan Securities Ltd. be and is hereby declared a 'Defaulter' as provided under the Rules, Bye-laws & Regulations of the Exchange, with effect from Saturday, 11<sup>th</sup> July, 2009, on account of its failure to deposit the awarded amounts with the Exchange in respect of Arbitration Awards passed against it and thereby its inability to discharge its obligations and liabilities towards the said Arbitration Awards.
- B) That Sunchan Securities Ltd. be and is hereby expelled from the trading membership as provided under the Rules, Bye-laws & Regulations of the Exchange, with effect from Saturday, 11<sup>th</sup> July, 2009, to comply with the requirements specified vide Circular No. F.No.1/26/SE/91 dated 12<sup>th</sup> August, 1991 issued by the Ministry of Finance (Department of Economic Affairs), Government of India and the Circular No. SMD/Policy/Cir-24/97 dated 26<sup>th</sup> September, 1997 issued by the Securities and Exchange Board of India (SEBI) in that respect; as the National Stock Exchange of India Limited (NSE), vide its Circular No.677, Ref. No. NSE/MEM/12415 dated 18<sup>th</sup> May, 2009 expelled Sunchan Securities Limited with effect from 18<sup>th</sup> May, 2009.

