CHAPTER – 6.

PROTECTION OF INVESTOR’S INTEREST THROUGH
REGULATION OF STOCK BROKERS

1. Introduction

As discussed in Chapter 2 of this study, the intermediaries and persons associated with securities market shall buy, sell or deal in securities after obtaining a certificate of registration from SEBI, as required by Section 12 of SEBI Act. Trading in securities market requires some link from intermediaries to client and stock exchange. Therefore, it is necessary to watch on the working of these intermediaries. The Stock brokers are very important link between stock exchanges and investor. Hence, in the exercise of powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992, the board has made regulation to regulate the working of Stock Broker and Sub brokers. In this chapter, we will discuss the regulations of stock broker and sub broker imposed by the SEBI.

2. Registration of Stock Broker: Investor’s interest protection

2.1 Process of registration - For working with stock exchanges, stock broker’s registration is mandatory. A stock broker applies in the prescribed format\textsuperscript{212} for grant of a certificate through the stock exchange or stock exchanges, as the case may be, of which he is admitted as a member\textsuperscript{213}. The stock exchange forwards the application form to SEBI as early as possible as but not later than thirty days from the date of its receipt.

SEBI takes into account for considering the grant of a certificate all matters relating to buying, selling, or dealing in securities and in particular the following, namely, whether the stock broker\textsuperscript{214}:

(a) is eligible to be admitted as a member of a stock exchange,
(b) has the necessary infrastructure like adequate office space, equipment and man power to effectively discharge his activities,

\textsuperscript{212} Form A
\textsuperscript{213} Regulation 3 of the SEBI (Stock Broker & Sub Brokers) Regulations,1992
\textsuperscript{214} Regulation 5 ibid
(c) has any past experience in the business of buying, selling or dealing in securities,

(d) is subjected to disciplinary proceedings under the rules, regulations and bye-laws of a stock exchange with respect to his business as a stockbroker involving either himself or any of his partners, directors or employees, and

(e) is a fit and proper person.

SEBI on being satisfied that the stockbroker is eligible, grants a certificate to the stockbroker and sends intimation to that effect to the stock exchange or stock exchanges, as the case may be. Where an application for grant of a certificate does not fulfill the requirements, SEBI may reject the application after giving a reasonable opportunity of being heard.

The Validity of Regulation 10 of Securities and Exchange Board of India (Stock brokers and Sub-brokers) Rules, 1992 was questioned in the matter of B.S.E. Brokers Forum, Bombay & Ors. etc. vs. Securities and Exchange Board of India and Ors. etc. The Section 3 (2) (c) of Securities Contracts (Regulation) Act, 1956 requires stock exchange applying for recognition to specify various classes of members to be admitted as members of stock exchange. There was no distinction made between full fledged member and trading member of National Stock Exchange (NSE). The definition of trading member under NSE Bye-laws shows that trading member to be stock broker and member of NSE, he must be registered in accordance with chapter 5 of National Stock Exchange Bye-laws. The definition of trading member means member of stock exchange – Explanation clarifies that more than one class of trading members of exchange may be determined by board from time to time. The trading member need not necessarily be member of NSE. The Court has held that there can be more than one class of members who can be admitted as members of stock exchange and any of those members belonging to any of those classes will fall within definition of member. The Regulation 10 validly applicable to members.

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215 Form D
216 Regulation 6 Procedure for registration of the SEBI (Stock brokers and Sub brokers) Regulations, 1992
2.2 Fees to be paid by stock brokers

Every applicant eligible for grant of a certificate shall pay such fees and in such manner as specified in Schedule III or schedule IIIA, as the case may be, Provided that SEBI may on sufficient cause being shown permit the stock-broker to pay such fees at any time before the expiry of six months from the date for which such fees become due\textsuperscript{218}.

Where a stock-broker fails to pay the fees, SEBI may suspend the registration certificate, whereupon the stock-broker shall cease to buy, sell or deal in securities as a stock-broker.

In the matter of Nikhil Kanchanlal Vakharia Vs. Securities and Exchange Board of India and Anr\textsuperscript{219}.

Facts - Fee required to be paid by the stock brokers in two distinct phases for keeping the registration in force - In the first five years of operation of a broker, the quantum of the fee was linked to the turnover of the stock broker - Second phase comprised blocks of five years from the sixth financial year after the grant of initial registration and during each block period of five years, the stock broker was required to pay a flat rate - Claim of the Appellant was that on account of transmission, since the business and trade continues in the same name or entity and the Stock Exchange permits continuation of the same membership under the same number and clearing code, they should also be given the benefit under the same registration of the earlier Stock-Broker and thus grant the benefit of fee continuity - Respondent contended that that there is no provision in the SEBI Act, Rules and/or Regulations of the SEBI, which recognizes the registration of stock-brokers by inheritance and/or transmission for the purpose of granting fee continuity benefit - Held, no provision of succession to registration is permissible under SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 - Appellants in order to operate in the stock exchange has to obtain a fresh registration from the SEBI and for the first five years, he would be required to pay the quantum of fee linked to the turnover and thereafter at the flat rate in order to keep the registration in force.

\textsuperscript{218} Regulation 10 of the SEBI (Stock brokers and Sub brokers) Regulations, 1992
\textsuperscript{219} MANU/SC/2469/2008, AIR 2008 SC 2667
2.3 General Obligation and responsibilities of stock brokers

Every Stock Broker shall keep and maintain the following books of account, records and documents, namely:—

a) Register of transactions (Sauda Book);
b) Clients ledger;
c) General ledger;
d) Journals;
e) Cash book;
f) Bank pass book;
g) Documents register containing, inter alia, particulars of securities received and delivered in physical form and the statement of account and other records relating to receipt and delivery of securities provided by the depository participants in respect of dematerialized securities;
h) Member’s contract books showing details of all contracts entered into by him with other members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other members;
i) Counterfoils or duplicates of contract notes issued to clients;
j) Written consent of clients in respect of contracts entered into as principals;
k) Margin deposit book;
l) Registers of accounts of sub-brokers;
m) An agreement with a sub-broker specifying the scope of authority, and responsibilities of the Stock Broker and such Sub-broker;
n) An agreement with the sub-broker and with the client of the sub-broker to establish privity of contract between the stock broker and the client of the sub-broker.

Every stock broker shall intimate to the Board the place where the books of account, records and documents are maintained. Every stock broker shall, after the close of each accounting period furnish to the Board if so required as soon as possible but not later than six months from the close of the said period a

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220 Regulation 17 of the SEBI (Stock brokers and Sub brokers) Regulations, 1992
copy of the audited balance sheet and profit and loss account as at the end of
the said accounting period: Provided that, if it is not possible to furnish the
above documents within the time specified, the Stock Broker shall keep the
Board informed of the same together with the reasons for the delay and the
period of time by which such documents would be furnished.

3. Appointment of Compliance Officer\textsuperscript{221} to look after rights of investors
and shareholders
Every stock broker shall appoint a compliance officer who shall be responsible
for monitoring the compliance of the Act, rules and regulations, notifications,
guidelines, instructions etc issued by SEBI or the Central Government and for
redressal of investors’ grievances. The compliance officer shall immediately
and independently report to SEBI any non-compliance observed by him.

4 Code of conduct\textsuperscript{222}
The stock-broker holding a certificate at all times abides by the Code of
Conduct\textsuperscript{223} as given hereunder:

4.1 General
1. Integrity: A stock-broker, shall maintain high standards of integrity,
promptitude and fairness in the conduct of all his business.
2. Exercise of Due Skill and Care: A stock-broker, shall act with due
skill, care and diligence in the conduct of all his business.
3. Manipulation: A stock-broker shall not indulge in manipulative,
fraudulent or deceptive transactions or schemes or spread rumours with
a view to distorting market equilibrium or making personal gains.
4. Malpractices: A stock-broker shall not create false market either singly
or in concert with others or indulge in any act detrimental to the
investors' interest or which leads to interference with the fair and
smooth functioning of the market. A stock-broker shall not involve
himself in excessive speculative business in the market beyond
reasonable levels not commensurate with his financial soundness.

\textsuperscript{221} Regulation 18A of the SEBI (Stock brokers and Sub brokers) Regulations, 1992
\textsuperscript{222} Regulation 7 of the SEBI (Stock brokers and Sub brokers) Regulations, 1992
\textsuperscript{223} Schedule II of Regulation 7 of the SEBI (Stock brokers and Sub brokers) Regulations, 1992
5. Compliance with Statutory Requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, SEBI and the stock exchange from time to time as may be applicable to him.

4.2 Duty to the investor

1. Execution of Orders: A stock-broker, in his dealings with the clients and the general investing public, shall faithfully execute the orders for buying and selling of securities at the best available market price and not refuse to deal with a small investor merely on the ground of the volume of business involved. A stock-broker shall promptly inform his client about the execution or non-execution of an order, and make prompt payment in respect of securities sold and arrange for prompt delivery of securities purchased by clients.

2. Issue of Contract Note: A stock-broker shall issue without delay to his client or client of the sub-broker, as the case may be a contract note for all transactions in the form specified by the stock exchange.

3. Breach of Trust: A stock-broker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client which he comes to know in his business relationship.

4. Business and Commission:
   (a) A stock-broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.
   (b) A stock-broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing him to do business in particular securities and enabling himself to earn brokerage or commission thereby.

5. Business of Defaulting Clients: A stock-broker shall not deal or transact business knowingly, directly or indirectly or execute an order for a client who has failed to carry out his commitments in relation to securities with another stock-broker.

6. Fairness to Clients: A stock-broker, when dealing with a client, shall disclose whether he is acting as a principal or as an agent and shall
ensure at the same time that no conflict of interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal advantage from the situation and shall not consider clients' interest inferior to his own.

7. Investment Advice: A stock-broker shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any securities unless he has reasonable grounds for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client as to his own security holdings, financial situation and objectives of such investment. The stock-broker should seek such information from clients, wherever he feels it is appropriate to do so.

7A. Investment Advice in publicly accessible media:

(a) A stock broker or any of his employees shall not render, directly or indirectly, any investment advice about any security in the publicly accessible media, whether real-time or non real-time, unless a disclosure of his interest including the interest of his dependent family members and the employer including their long or short position in the said security has been made, while rendering such advice.

(b) In case, an employee of the stock broker is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.

8. Competence of Stock Broker: A stock-broker should have adequately trained staff and arrangements to render fair, prompt and competent services to his clients.

4.3 Stock-brokers vis-a-vis other stock-brokers

1. Conduct of Dealings: A stock-broker shall co-operate with the other contracting party in comparing unmatched transactions. A stock-broker shall not knowingly and willfully deliver documents which constitute bad delivery and shall co-operate with other contracting parties for prompt replacement of

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224 Inserted by the SEBI (Investment advice by intermediaries) (Amendment) Regulations, 2001
documents which are declared as bad delivery.

2. Protection of Clients Interests: A stock-broker shall extend fullest co-operation to other stock- brokers in protecting the interests of his clients regarding their rights to dividends, bonus shares, right shares and any other rights related to such securities.

3. Transactions with Stock-Brokers: A stock-broker shall carry out his transactions with other stock- brokers and shall comply with his obligations in completing the settlement of transactions with them.

4. Advertisement and Publicity: A stock-broker shall not advertise his business publicly unless permitted by the stock exchange.

5. Inducement of Clients: A stock-broker shall not resort to unfair means of inducing clients from other stock- brokers.

6. False or Misleading Returns : A stock-broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to the Board and the stock exchange.

4.4 Agreement

1. A stock broker shall enter into an agreement as specified by the Board with his client.

2. A stock broker shall also enter into an agreement as specified by the Board with the client of the sub- broker.

5. Registration of Sub- Broker

No sub broker shall act as such unless he holds a certificate granted by board. An application by a sub-broker for the grant of a certificate is made in the prescribed format accompanied by a recommendation letter from a stock- broker of a recognised stock exchange with whom he is to be affiliated along with two references including one from his banker. The application form is submitted to the stock exchange of which the stock-broker with whom he is to be affiliated is a member.

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225 Inserted by the SEBI (Stock brokers and Sub brokers) (Amendment)Regulations, 2003, W.E.F.23-09-2003
226 Regulation 11(1) of the SEBI (Stock brokers and Sub brokers) Regulations, 1992
227 Regulation 11A of the SEBI (Stock brokers and Sub brokers) Regulations, 1992
5.1 The eligibility criteria for registration as a sub-broker are as follows:

(i) in the case of an individual:
(a) the applicant is not less than 21 years of age,
(b) the applicant has not been convicted of any offence involving fraud or dishonesty,
(c) the applicant has at least passed 12th standard equivalent examination from an institution recognised by the Government. However, SEBI may relax the educational qualifications on merits having regard to the applicant's experience.
(d) the applicant is a fit and proper person.

(ii) In the case of partnership firm or a body corporate the partners or directors, as the case may be, shall comply with the following requirements:
(a) the applicant is not less than 21 years of age,
(b) the applicant has not been convicted of any offence involving fraud or dishonesty, and
(c) the applicant has at least passed 12th standard equivalent examination from an institution recognised by the Government. Provided that SEBI may relax the educational qualifications on merits having regard to the applicant's experience.

The stock exchange on receipt of an application, verifies the information contained therein and certifies that the applicant is eligible for registration. The stock exchange forwards the application form of such applicants who comply with all the requirements specified in the Regulations to SEBI as early as possible, but not later than thirty days from the date of its receipt. SEBI on being satisfied that the sub-broker is eligible, grants a certificate to the sub-broker and sends intimation to that effect to the stock exchange or stock exchanges as the case may be. SEBI grants a certificate of registration to the appellant subject to the terms and conditions.

Where an application does not fulfill the requirements, SEBI may reject the application after giving a reasonable opportunity of being heard.
5.2 General Obligations on sub brokers\(^{228}\)

The sub-broker shall –

(a) pay the fees as specified in Schedule III,
(b) abide by the Code of Conduct specified in Schedule II,
(c) enter into an agreement with the stock-broker for specifying the scope of his authority and responsibilities.
(d) comply with the rules, regulations and bye-laws of the stock exchange.
(e) not be affiliated to more than one stock broker of one stock exchange.

5.3 Code of conduct for sub broker

The sub-broker at all times abides by the Code of Conduct as given hereunder:

5.3.1 General

1. Integrity: A sub-broker shall maintain high standards of integrity, promptitude and fairness in the conduct of all investment business.
2. Exercise of Due Skill and Care: A sub-broker shall act with due skill, care and diligence in the conduct of all investment business.

5.3.2 Duty to the Investor

1. Execution of Orders: A sub-broker, in his dealings with the clients and the general investing public, shall faithfully execute the orders for buying and selling of securities at the best available market price. A sub-broker shall promptly inform his client about the execution or non-execution of an order.
2. A sub-broker shall render necessary assistance to his client in obtaining the contract note from the stock-broker.
3. Breach of Trust: A sub-broker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client which he comes to know in his business relationship.
4. Business and Commission:
   a) A sub-broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or

\(^{228}\) Regulation 15(1) of the SEBI (Stock brokers and Sub brokers) Regulations, 1992
commission.

b) A sub-broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing him to do business in particular securities and enabling himself to earn brokerage or commission thereby.

c) A sub-broker shall not charge from his clients a commission exceeding one and one-half of one percent of the value mentioned in the respective sale or purchase notes.

5. Business of Defaulting Clients: A sub-broker shall not deal or transact business knowingly, directly or indirectly or execute an order for a client who has failed to carry out his commitments in relation to securities and is in default with another broker or sub-broker.

6. Fairness to Clients: A sub-broker, when dealing with a client, shall disclose that he is acting as an agent ensuring at the same time, that no conflict of interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal advantage from the situation and shall not consider clients' interest inferior to his own.

7. Investment Advice: A sub-broker shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any securities unless he has reasonable grounds for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client as to his own security holdings, financial situation and objectives of such investment. The sub-broker should seek such information from clients, wherever they feel it is appropriate to do so.

7A. Investment Advice in publicly accessible media -

(a) A sub-broker or any of his employees shall not render, directly and indirectly any investment advice about any security in the publicly accessible media, whether real-time or non-real-time, unless a disclosure of his interest including his long or short position in the said security has been made, while rendering such advice.
(b) In case, an employee of the sub-broker is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.

8. Competence of Sub-broker: A sub-broker should have adequately trained staff and arrangements to render fair, prompt and competent services to his clients and continuous compliance with the regulatory system.

5.3.3 Sub-Brokers vis-à-vis Stock Brokers

1. Conduct of Dealings: A sub-broker shall co-operate with his broker in comparing unmatched transactions. A sub-broker shall not knowingly and willfully deliver documents, which constitute bad delivery. A sub-broker shall co-operate with other contracting party for prompt replacement of documents, which are declared as bad delivery.

2. Protection of Clients Interests: A sub-broker shall extend fullest cooperation to his stock-broker in protecting the interests of their clients regarding their rights to dividends, right or bonus shares or any other rights relatable to such securities.

3. Transaction with Brokers: A sub-broker shall not fail to carry out his stock broking transactions with his broker nor shall he fail to meet his business liabilities or show negligence in completing the settlement of transactions with them.

4. Agreement between sub-broker, client of the sub-broker and main broker: A sub-broker shall enter into a tripartite agreement with his client and with the main stock broker specifying the scope of rights and obligations of the stock broker, sub-broker and such client of the sub-broker.

5. Advertisement and Publicity: A sub-broker shall not advertise his business publicly unless permitted by the stock exchange.

6. Inducement of Clients: A sub-broker shall not resort to unfair means of inducing clients from other brokers.

5.3.4 Sub-brokers vis-a-vis Regulatory Authorities

1. General Conduct: A sub-broker shall not indulge in dishonourable, disgraceful or disorderly or improper conduct on the stock exchange
nor shall he willfully obstruct the business of the stock exchange. He shall comply with the rules, bye-laws and regulations of the stock exchange.

2. Failure to give Information: A sub-broker shall not neglect or fail or refuse to submit to SEBI or the stock exchange with which he is registered, such books, special returns, correspondence, documents, and papers or any part thereof as may be required.

3. False or Misleading Returns: A sub-broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to SEBI or the stock exchanges.

4. Manipulation: A sub-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

5. Malpractices: A sub-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the public interest or which leads to interference with the fair and smooth functions of the market mechanism of the stock exchanges. A sub-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

6. PROCEDURE FOR ACTION IN CASE OF DEFAULT

6.1 Liability for contravention of the Act, rules or the regulations\footnote{Regulation 25 of the SEBI (Stock brokers and Sub brokers) Regulations, 1992}. A stock broker or a sub-broker who contravenes any of the provisions of the Act, rules or regulations framed thereunder shall be liable for any one or more of the following actions—

i. Monetary penalty under Chapter VIA of the Act.

ii. Penalties as specified under Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 including suspension or cancellation of certificate of registration as a stock broker or a sub-broker,
iii. Prosecution under section 24 of the Act.

6.2 Liability for monetary penalty230.

A stock broker or a sub-broker shall be liable for monetary penalty in respect of the following violations, namely—

(i) Failure to file any return or report with the Board.

(ii) Failure to furnish any information, books or other documents within 15 days of issue of notice by the Board.

(iii) Failure to maintain books of account or records as per the Act, rules or regulations framed thereunder.

(iv) Failure to redress the grievances of investors within 30 days of receipts of notice from the Board.

(v) Failure to issue contract notes in the form and manner specified by the Stock Exchange of which such broker is a member.

(vi) Failure to deliver any security or make payment of the amount due to the investor within 48 hours of the settlement of trade unless the client has agreed in writing otherwise.

(vii) Charging of brokerage which is in excess of brokerage specified in the regulations or the bye-laws of the stock exchange.

(viii) Dealing in securities of a body corporate listed on any stock exchange on his own behalf or on behalf of any other person on the basis of any unpublished price sensitive information.

(ix) Procuring or communicating any unpublished price sensitive information except as required in the ordinary course of business or under any law.

(x) Counseling any person to deal in securities of any body corporate on the basis of unpublished price sensitive information.

(xi) Indulging in fraudulent and unfair trade practices relating to securities.

(xii) Execution of trade without entering into agreement with the

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230 Regulation 26 of the SEBI (Stock brokers and Sub brokers) Regulations, 1992
client under the Act, rules or regulations framed thereunder or failure to maintain client registration form or commission of any irregularities in maintaining the client agreement.

(xiii) Failure to segregate his own funds or securities from the client’s funds or securities or using the securities or funds of the client for his own purpose or for purpose of any other client.

(xiv) Acting as an unregistered sub-broker or dealing with unregistered sub-brokers.

(xv) Failure to comply with directions issued by the Board under the Act or the regulations framed thereunder.

(xvi) Failure to exercise due skill, care and diligence.

(xvii) Failure to seek prior permission of the Board in case of any change in its status and constitution.

(xviii) Failure to satisfy the net worth or capital adequacy norms, if any, specified by the Board.

(xix) Extending use of trading terminal to any unauthorized person or place.

(xx) Violations for which no separate penalty has been provided under these regulations.

6.3 Liability for action under the Enquiry Proceeding Regulations.

A stock broker or a sub-broker shall be liable for any action as specified in [Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008] including suspension or cancellation of his certificate of registration as a stock broker or a sub-broker, as the case may be, if he—

(i) ceases to be a member of a stock exchange; or

(ii) has been declared defaulter by a stock exchange and not re-admitted as a member within a period of six months; or

(iii) surrenders his certificate of registration to the Board; or

(iv) has been found to be not a fit and proper person by the Board under these or any other regulations; or

(v) has been declared insolvent or order for winding up has been

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231 Regulation 27 of the SEBI (Stock brokers and Sub brokers) Regulations, 1992
passed in the case of a broker or sub-broker being a company registered under the

(vi) Companies Act, 1956; or

(vii) or any of the partners or any whole-time director in case a broker or sub-broker is a company registered under the Companies Act, 1956 has been convicted by a court of competent jurisdiction for an offence involving moral turpitude; or

(viii) fails to pay fee as per Schedule III of these regulations; or

(ix) fails to comply with the rules, regulations and bye-laws of the stock exchange of which he is a member; or

(x) fails to co-operate with the inspecting or investigating authority; or

(xi) fails to abide by any award of the Ombudsman or decision of the Board under the Securities and Exchange Board of India (Ombudsman) Regulations, 2003; or

(xii) fails to pay the penalty imposed by the Adjudicating Officer; or

(xiii) indulges in market manipulation of securities or index; or

(xiv) indulges in insider trading in violation of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992; or

(xv) violates Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003; or

(xvi) commits violation of any of the provisions for which monetary penalty or other penalties could be imposed; or

(xvii) fails to comply with the circulars issued by the Board; or

(xviii) commits violations specified in regulation 26 which in the opinion of the Board are of a grievous nature.
6.4 Liability for prosecution

A stock broker or a sub-broker shall be liable for prosecution under section 24 of the Act for any of the following violations, namely:

(i) Dealing in securities without obtaining certificate of registration from the Board as a stock broker or a sub-broker.

(ii) Dealing in securities or providing trading floor or assisting in trading outside the recognized stock exchange in violation of provisions of the Securities Contracts (Regulation) Act, 1956 or rules made or notifications issued thereunder.

(iii) Market manipulation of securities or index.


(vi) Failure without reasonable cause—

a. to produce to the investigating authority or any person authorized by him in this behalf, any books, registers, records or other documents which are in his custody or power; or

b. to appear before the investigating authority personally or to answer any question which is put to him by the investigating authority; or

c. to sign the notes of any examination taken down by the investigating authority.

(vii) Failure to pay penalty imposed by the adjudicating officer or failure to comply with any of his directions or orders.

7. Conclusion: - Therefore, SEBI has regulated the business of stock broker and sub broker through the provisions of the SEBI (Stock brokers and Sub brokers) Regulations, 1992. Besides the legal provisions, it prescribed code of conduct for the Stock Broker and sub broker. It has also prescribed

232 Regulation 28 of the SEBI (Stock brokers and Sub brokers) Regulations, 1992
prosecution and punishment to stock broker and sub broker in case of contravention of these regulations as well as provisions prescribed under the Act. The stock broker is also empowered to impose certain condition on sub brokers and stock exchanges have also empowered to impose conditions on stock broker. So, by delegation of legislation, the SEBI is monitoring the conduct of securities market. Moreover, it has right to inspect the books of account, other records and documents of the stock broker. The Board shall after consideration of inspection or investigation report takes such action as it may deem fit. The board can under these regulations appoint an auditor to investigate into the books of account and affairs of the stock brokers. The board can impose monetary as well as imprisonment upto ten years.

Henceforth, under these regulations the SEBI has wide powers to control the working of Stock Broker and Sub broker, who are the key intermediaries of the securities market and they are directly deals with investors. By using powers, the SEBI is protecting the interest of investors and shareholders in very effective manner.

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