

**Before the  
Member and Core Settlement Guarantee Fund Committee  
("MCSGFC"/"Committee")  
of  
National Stock Exchange of India Limited  
Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051  
held on May 23, 2022**

**In the matter of Trading Member Arihant Capital Markets Ltd.**

**CORAM:**

Ms. Mona Bhide	- Chairperson
Mr. K Narasimha Murthy	- Committee Member
Ms. Anuradha Rao	- Committee Member
Mr. Ranganayakulu Jagarlamudi	- Committee Member
Mr. Vikram Limaye	- Committee Member

**ALSO PRESENT:**

Ms. Priya Subbaraman	- Chief Regulatory Officer
Dr. Dinesh Kumar Soni	- Senior Vice President - Regulatory
Mr. Suresh Nair	- Vice President – Enforcement

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**BACKGROUND**

1. **Arihant Capital Markets Ltd.** ("Arihant ") is a Trading Member registered with the National Stock Exchange of India Limited ("Exchange") and enabled for trading in the Capital Market ("CM") segment, Futures & Options ("F&O") segment since September 1995 and Currency Derivatives ("CD") segment since October 2008.
2. The Exchange conducted a limited purpose inspection of Arihant's books of accounts and records in December 2021 to verify the availability of clients' funds as on November 1, 2021. Post-inspection, the Exchange observed that the Arihant misused the clients' funds on November 1, 2021. Therefore, the Exchange issued a show cause notice, bearing reference No. NSE/INSP/LPI/CMFOCD/SCN/21-22/07839/2021-9651 dated February 4, 2022 ("SCN") to Arihant to seek an explanation for the observed non-compliance of the regulatory provisions. Arihant, vide letter dated February 22, 2022, replied to the SCN.

3. **INSPECTION OBSERVATION**

The observation mentioned in the SCN is about the misuse of clients' funds. It is observed in SCN that the funds of credit balance clients were used for settlement obligations of debit balance clients or own purposes to the extent of Rs.2.33 crores as on November 1, 2021 (Principle 1 of Enhanced Supervision of Stockbrokers).

#### 4. **RELEVANT REGULATORY PROVISIONS**

At the outset, it is appropriate to refer to the relevant regulatory provisions alleged to have been violated by Arihant. Extracts of which are reproduced below:

##### 4.1 Regulation 4.5.3(e) of NSEIL Regulations (CM and F&O Segments)

*“No Trading Member or person associated with a Trading Member shall make improper use of the constituent's securities or funds.”*

##### 4.2 Exchange Circular No. NSE/INSP/29096 dated March 11, 2015

*“Members are advised to ensure that the funds & securities available in the client bank/s and client beneficiary account/s together with balances available with clearing Member and funds with clearing corporation are not less than the funds securities payable to the client at all times.”*

##### 4.3 Exchange Circular No. NSE/INSP/33276 dated September 27, 2016

*3.3.1. Funds of credit balance clients used for settlement obligation of debit clients or own purpose:*

*Principle:*

*The total available funds i.e. cash and cash equivalents with the stockbroker and with the clearing corporation/clearing member (A + B) should always be equal to or greater than Clients' funds as per ledger balance (C)*

$$G = (A+B) - C$$

##### 4.4 Exchange Circular No. NSE/INSP/43926 dated March 23, 2020

*Member's attention is drawn to Exchange Circular NSE/INSP/43486 dated February 10, 2020, regarding the proposed submission of the following data /details:*

*1. Day-wise upload of client level cash & cash equivalent balances every week for all calendar days of that week except Sunday (i.e. Monday to Saturday);*

*2. Day-wise upload of bank balances (as per the bank statement) of all bank accounts every week for all the calendar days of that week except Sunday (i.e. Monday to Saturday)*

*The aforesaid data/details shall be required to be submitted on or before the next four trading days of the subsequent week.*

#### 5. **CONSIDERATION AND FINDINGS**

The observation/alleged violation, Arihant's reply, and the Committee's findings are as under:

- a. The Exchange verified the weekly cash and cash equivalent balances submitted by the Arihant as on November 1, 2021, vis-à-vis the records prescribed under the circulars issued by the Exchange on submission of data under the Enhanced Supervision of stockbrokers as applicable from time to time. The Exchange observed that Arihant used the funds of credit balance clients to meet the settlement obligations of the debit balance clients or for own purpose to the extent of Rs.2.33 crores as on November 1, 2021 (Principle 1 of the Enhanced Supervision of Stockbroker). The details are as under:

**Misuse of clients' funds as on November 1, 2021**

Sr.	Particulars	Amount (Rs. in crores)
A	Total of day-end balance in all client bank accounts	5.01
B1	Collateral deposited with Clearing Corporation in form of cash and cash equivalents	106.49
B2	Collateral deposited with Clearing Member in form of the cash and cash equivalents	131.36
C	Total credit balance of all clients	245.19
<b>G</b>	<b>Misuse of clients' funds G = (A+B) - C</b>	<b>-2.33</b>

- b. In reply to the SCN, Arihant submitted as under:
- i. Principle 1 is arrived as negative on account of omission (non-consideration of certain items) and errors on the part of Arihant.
  - ii. The omission and errors were mainly due to 1) not considering the deposits aggregating to Rs.40.75 Lakhs lying with the Exchanges, Clearing Member, and Clearing Corporation. 2) erroneously depositing inter-corporate debt of Rs.3.75 crores received from Arihant Futures and Commodities Ltd., ("AFCL") to the ledger account of AFCL instead of own account/credit to a loan account. The details of the said omissions and errors on the part of Arihant are as under:
    - 1) The following deposits aggregating to Rs.40.75 Lacs were not considered, while computing the availability of client funds.:
      - i) Deposit of Rs.7,74,926.00 with Clearing Member Globe Capital Market Limited.
      - ii) Deposit of Rs.2,00,000.00 with Metropolitan Stock Exchange of India Limited.
      - iii) Deposit of Rs.2,50,000.00 and Rs.7,50,000.00 totalling to Rs.10,00,000.00 with Multi Commodity Stock Exchange Ltd.
      - iv) Deposit of Rs.10,00,000.00 each, totaling Rs.20,00,000.00 with National Commodity and Derivative Exchange Limited and NCCL.

v) Deposit of Rs.1,00,000.00 with NSE Clearing Limited for Debt Segment.

2) The erroneous reporting of inter-corporate debt in creditors' balance as under:

i) As on November 01, 2021, the creditors' balance includes a balance of Rs.5,50,67,561.00 of AFCL. Out of the said creditors' balance, a receipt on October 28, 2021, of Rs.3,75,00,000.00 is inter-corporate debt, which was erroneously deposited by the concerned team member of Arihant in the client bank account and credited to AFCL's ledger account.

ii) The funds received erroneously in AFCL account are reversed to the AFCL on November 3, 2021, and the employee who has committed the error was given a warning.

iii) AFCL is a wholly owned subsidiary of Arihant, and it shall be incorrect to conclude that its funds have been mis-utilized by Arihant.

c. The Committee finds as under:

i) Upon verification of the documents submitted by Arihant in support of its contention that deposits lying with Exchanges, Clearing Member, and Clearing Corporation aggregating to Rs.40.75 Lacs have not been considered due to omission on its part is found to be correct. Accordingly, upon considering the said deposits, the quantum of misuse stands reduced from Rs.2.33 crores to Rs.1.92 crores.

ii) Exchange Circular No.NSE/INSP/43926 dated March 23, 2020, requires, the Trading Members to upload day-wise client level cash and cash equivalent balances and bank balances of all bank accounts weekly. The said circular is put in place to enhance the level of monitoring.

iii) AFCL is the client of Arihant. Therefore, the balances lying in the ledger account of AFCL must be considered while reporting to the Exchange under Client Level Cash and Cash Equivalent Balances. The aforesaid circular does not provide any exemption from non-reporting of balances of AFCL to the Exchange.

iv) Arihant's contention is that AFCL being a wholly owned subsidiary of Arihant, the credit balance of AFCL should not be considered as credit balances. The same is not acceptable as AFCL is registered client.

v) Further, errors in crediting inter-corporate debt of Rs.3.75 crores to AFCL's ledger account instead of own account are also not acceptable, and the Arihant is expected to ensure compliance with regulatory directives in letter and spirit.

vi) Upon verification of the trial balance, bank statement, and supporting files of Clearing Member, and Clearing Corporation as on November 2, 2021, it is observed that Arihant recouped the shortfall on November 2, 2021.

- d. Considering the shortfall of clients' funds on November 1, 2021, recouped on November 2, 2021, the Committee decided to take a lenient view and warn the Arihant to ensure non-recurrence of the observed violation.
6. The proceedings of the MCSGFC meeting was held on May 23, 2022. At this stage, it is not possible to sign a copy of this order, nor the Exchange can issue a certified copy of the order. Therefore, an electronic copy of this order sent from the Exchange's email id shall be treated as a signed copy for all purposes.

Sd/-  
Mona Bhide  
(Chairperson)

Sd/-  
K Narsimha Murthy  
(Committee Member)

Sd/-  
Anuradha Rao  
(Committee Member)

Sd/-  
Ranganayakulu Jagarlamundi  
(Committee Member)

Sd/-  
Vikram Limaye  
(Committee Member)

Date: July 18, 2022.