

**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 July 10, 2023**

In the matter of the Trading Member M/s. Abhipra Capital Limited

CORAM:

Ms Mona Bhide	- Chairperson
Mr K Narasimha Murthy	- Committee Member
Mr S Ravindran	- Committee Member
Mr Ranganayakulu Jagarlamudi	- Committee Member
Mr Ashishkumar Chauhan	- Committee Member

ALSO PRESENT:

Dr Dinesh Kumar Soni	- Senior Vice President – Regulatory
Ms Renu Bhandari	- Vice President – Inspection
Mr Shailesh Adukia	- Vice President – Enforcement
Mr Janardhan Gujran	- Vice President – Enforcement

BACKGROUND

1. **M/s. Abhipra Capital Limited ("Noticee")** is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Market ("**CM**") segment since November 1995, Futures & Options ("**F&O**") segment since July 2000, and Currency Derivatives ("**CD**") segment since September 2008.
2. The Exchange initiated a forensic audit of the Noticee's books and records. The review period of the audit was from April 1, 2018, to March 31, 2021. Based on the findings of the forensic audit, the Exchange issued a show-cause notice ("**SCN**") to the Noticee dated December 30, 2022, for the observed non-compliances with the regulatory provisions. The Noticee, vide its letter dated January 25, 2023, replied to the SCN.

INSPECTION OBSERVATIONS/VIOLATIONS

3. The inspection observations/violations alleged in the SCN are summarized hereunder:

3.1 Shortfall in net worth, i.e. (-ve) Rs.1 crore as of March 31, 2021

3.2 Misrepresentation of data to the Exchange to the extent of Rs.4.61 crores

3.3 Shortfall of client funds, i.e. funds of credit balance clients used to meet the settlement obligations of debit balance clients and/or own purpose to the extent of Rs.3.60 crores as of March 31, 2021 (Principle 1 of the Enhanced Supervision of Stockbrokers)

3.4 Engagement as a principal in a business other than securities involving personal financial liability, i.e. loans and advances extended to parties amounting to Rs.9.59 crores, Rs.11.76 crores and Rs.11.60 crores for the financial years 2018-19, 2019-20, and 2020-21, respectively, and interest earned on the said loans and advances amounting to Rs.3.03 crores

3.5 Non-segregation of funds involving net fund transfer from proprietary account to client/settlement account involving Rs.1.11 crores

3.6 Non-reconciliation of securities between (a) reconstructed register of securities holdings and back-office holdings in 197 instances involving Rs.3.42 lakhs as of March 31, 2021; (b) reconstructed register of securities holdings and depository holdings involving Rs.2.63 crores as of April 1, 2018

3.7 Non-settlement of clients' funds in all 60 instances selected for sample scrutiny involving Rs.70.53 lakhs

3.8 Non-reporting of 19 bank accounts to the Exchange under the Enhanced Supervision of Stock Brokers

3.9 Non-maintenance of books of accounts in the prescribed format

REGULATORY PROVISIONS

4. At the outset, it is appropriate to refer to the relevant regulatory provisions violated by the Noticee; extracts whereof are reproduced below:

4.1 Shortfall in net worth

Rule 33 of Chapter III of the Rules of the Exchange

Continued Admittance

The relevant authority shall from time to time prescribe conditions and requirements for continued admittance to trading membership which may, inter alia, include maintenance of minimum net worth and capital adequacy, renewal of certification, if any, etc. The trading membership of any person who fails to meet these requirements shall be liable to be terminated.

4.2 Misrepresentation of data to the Exchange

Rule 17 of Chapter III of NSEIL Rules

The relevant authority may at any time from the date of admission to the trading membership of the Exchange cancel the admission and expel a trading member if he has in or at the time of his application for admission to membership or during the course of the inquiry made by the relevant authority preceding his admission:

- (a) made any wilful misrepresentation; or*
- (b) suppressed any material information required of him as to his character and antecedents; or*
- (c) has directly or indirectly given false particulars or information or made a false declaration.*

4.3 Shortfall of clients' funds

- a. **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.

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

3.3.1. *Funds of credit balance clients used for margin obligations of debit balance 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 **Engagement as a principal or employee in a business other than securities involving personal financial liability**

a. Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957

8. *The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:*

(3) No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if –

(f) he engages either as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability.

b. SEBI Circular No. SMD/POLICY/CIR-6/97 dated May 7, 1997

It has been opined that borrowing and lending of funds, by a trading member, in connection with or incidental to or consequential upon the securities business, would not be disqualified under Rule 8(1)(f) and 8(3)(f).

4.5 **Non-segregation of client and own funds**

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

Transfer of funds between "Name of Stock Broker - Client Account" and "Name of Stock Broker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stock Broker - Client Account" to "Name of Stock Broker - Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred.

4.6 **Non-reconciliation of securities**

a. Exchange Circular No. NSE/INSP/10605 dated April 21, 2008

The records should be periodically reconciled with the actual collateral deposited with the broker.

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

The Members are advised to reconcile client beneficiary account/s and the register of securities on a quarterly basis and maintain complete audit trail & documentation of such reconciliation.

4.7 **Non-settlement of clients' funds**

a. Exchange Circular No. NSE/INSP/13606 dated December 3, 2009

Unless otherwise specifically agreed to by a client, the settlement of funds/securities shall be done within 24 hours of the payout. However, a client may specifically authorize the stockbroker to maintain a running account subject to inter alia the following condition:

The actual settlement of funds and securities shall be done by the broker at least once in a calendar quarter or month, depending on the preference of the client.

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

8.1.1 *The stockbroker shall ensure that there must be a gap of a maximum of 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two running account settlements.*

4.8 **Non-reporting of bank accounts to the Exchange**

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

2.1 *The stock brokers shall inform the stock exchanges of existing and new bank account(s) in the following format:*

Name and Address of Bank	Name of the Branch	Account Number	IFSC Code	Name of Account	Purpose of Account (Own/Client/Settlement)	Date of Opening

4.9 **Non-maintenance of books of accounts in prescribed format**

Exchange Circular No. NSE/INSP/38743 dated August 30, 2018

In order to standardize the maintenance of books of accounts/records and ensure uniformity across all Members, a standard format for Register of Securities, Holding Statement, Bank Book and Client Ledger is prescribed in the circular.

Non-maintenance of Register of Securities, Holding Statement, Bank Book and Client Ledger in the prescribed format is a violation of the provisions of the Securities Contracts (Regulation) Rules 1957 / Regulations of the Exchange and will attract appropriate disciplinary action as per Rule 1 and 2 of Chapter IV of NSEIL Rules.

PAST MCSGFC PROCEEDINGS

5. The matter was placed before the Committee on the following dates: -

5.1 March 6, 2023

5.1.1 The Exchange, vide its email dated February 28, 2023, granted the Noticee an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. V D Aggarwal – Director and

Ms. Deepika Vijay Sawhney – Authorized Representative, attended the personal hearing.

5.1.2 Upon consideration of the oral and written submissions, the Committee directed the Noticee to provide the audited net worth certificate as of March 3, 2023, along with relevant supporting data/documents mentioned below: -

- a. Provisional financials with corresponding supporting trial balances of all divisions along with proper grouping as of March 3, 2023
- b. Ageing of debtors of all divisions as of March 3, 2023
- c. All bank statements and bank books for the period from June 1, 2022, to March 3, 2023, and bank reconciliation of all banks as of March 3, 2023
- d. Ledgers of all parties with loan transactions for the period from June 1, 2022, to March 3, 2023, showing under the head loans and advances, and other current assets
- e. Detailed break-up of inventories/investments and cash and cash equivalents as of March 3, 2023, along with supporting documents
- f. Details of loans taken, and corresponding collateral provided against the same with documentary evidence as of March 3, 2023
- g. Any other information/clarification required for completeness of working of net worth

5.1.3 Accordingly, the Exchange, vide its email dated March 6, 2023, informed the Noticee to comply with the aforesaid direction of the Committee within 10 days, i.e. by March 17, 2023, failing which necessary action will be initiated.

5.2 March 22, 2023

5.2.1 The Noticee, vide its email dated March 17, 2023, sought an extension of time to submit the aforesaid data/documents within the first week of April 2023 since it is in the process of compiling the ledgers and its staff and auditors are pre-occupied in the year ending

account closing works.

- 5.2.2 While acceding to the request of the Noticee for an extension of time, the Committee directed the Noticee to submit the audited net worth certificate as of March 3, 2023, along with the relevant supporting documents as mentioned in the email dated March 6, 2023, by April 8, 2023.
- 5.2.3 Accordingly, the Exchange, vide its email dated March 23, 2023, informed the Noticee to comply with the aforesaid direction of the Committee.
- 5.2.4 The Noticee, vide its email dated April 11, 2023, submitted audited net worth certificate certifying a net worth of Rs.9.36 crores as of March 3, 2023, along with the data/documents as mentioned in the email dated March 6, 2023. The Noticee submitted an agreement dated March 22, 2023, executed between the Noticee and M/s. Reliable Data Services Limited (RDSL) for assignment of debts, ledgers of RDSL, computation of the Noticee's net worth as of March 3, 2023.
- 5.2.5 Upon perusal of the aforesaid data/documents, the Exchange, vide its email dated April 13, 2023, requested the Noticee to submit additional data/documents, viz. client ledgers for all division from April 1, 2022, to March 3, 2023, break-up of doubtful debts and advances as per the net worth as of March 3, 2023. As requested by the Exchange, the Noticee, vide its email dated April 17, 2023, submitted the additional documents. Thereafter, the Exchange, vide its email dated April 19, 2023, sought clarification regarding recovery of debtors as of April 19, 2023, for debtor against sale of shares, and explanation for transactions of sale of unlisted shares of AMSPL and AFSPL. However, the Noticee did not reply to the said email.

5.3 April 21, 2023

- 5.3.1 The Exchange, vide its email dated April 17, 2023, granted the Noticee an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. V D Aggarwal – Director and Ms. Deepika Vijay Sawhney – Authorized Representative, attended the personal hearing and made the following oral submissions:

The Noticee executed an agreement dated March 22, 2023, with RDSL for assignment of debts amounting to Rs.9.06 crores as of

February 28, 2023, for a consideration of Rs.8 crores to RDSL. The Noticee received Rs.1.25 crores from RDSL as of date and the remaining amount will be received by the end of May 2023. The recovery of debts will continue with joint efforts of the parties.

5.3.2 The Exchange, vide its email dated April 24, 2023, sought clarification from the Noticee with respect to whether RDSL is an asset reconstruction company (ARC) registered with Reserve Bank of India (RBI), details of primary business/category of company registration of RDSL, stamping/franking details of the agreement, board resolution of the parties to the agreement, ledger/supporting reflecting receipt of Rs.50 lakhs as per the agreement.

5.3.3 The Noticee, vide its email dated April 27, 2023, provided clarification as under:

- a. RDSL is a company incorporated in 2001. It is in the business of field collection, processing support and other back-end activities. It has more than 2,500 employees. RDSL uses technology along with feet on street employees for solutions/collection for its clients. With respect to registration as ARC with RBI, RDSL is not working as an ARC and therefore is not registered with RBI. The arrangement is in the nature of invoice discounting/assignment of debtors and not securitization of assets. It is a purely a commercial agreement wherein both the parties are benefiting commercially.
- b. The agreement dated April 22, 2023, and supplementary agreement dated April 25, 2023, are duly executed on the stamp paper of Rs.100/- as per applicable provisions of Delhi Stamp Act.
- c. The Noticee provided the copies of supplementary agreement dated April 25, 2023, board resolution, and the ledger of RDSL in the books of the Noticee.

5.3.4 In view of the shortfall in net worth as of March 3, 2023, without going into the merits of other non-compliances mentioned in the SCN, the Committee, vide its interim order dated May 26, 2023, disabled the trading terminals of the Noticee in all segments with immediate effect until further direction.

The Exchange, vide its email dated May 26, 2023, forwarded the interim order to the Noticee.

5.3.5 Accordingly, the Exchange disabled the trading terminals of the Noticee with effect from May 29, 2023, before market hours.

5.3.6 Aggrieved by the order dated May 26, 2023, the Noticee filed an Appeal No. 488 of 2023 before the Hon'ble Securities Appellate Tribunal ("**SAT**"). The Hon'ble SAT, vide its order dated June 9, 2023, quashed the order dated May 26, 2023, and directed the Committee to pass a final order pursuant to the show-cause notice dated December 30, 2022, within three months after giving an opportunity of hearing.

5.3.7 Thereafter, the Exchange enabled the trading terminals of the Noticee in all segments with effect from June 12, 2023.

6. The Exchange, vide its email dated June 30, 2023, requested the Noticee to provide the following data/documents for verification of the net worth as of March 31, 2023:

- a. Provisional financials with corresponding supporting trial balances of all divisions along with proper grouping as of March 31, 2023
- b. Ageing of debtors of all divisions as of March 31, 2023
- c. Break-up of doubtful debts and advances as per net worth certificate
- d. Bank statements and bank books from March 4, 2023, to March 31, 2023, and reconciliation of all bank accounts as of March 31, 2023
- e. Ledgers of all parties with loan transactions from March 4, 2023, to March 31, 2023, showing as loans and advances
- f. Detailed break-up of inventories/investments and cash and cash equivalents as of March 31, 2023, along with supporting documents

The Noticee, vide its email dated July 10, 2023, provided the net worth certificate as of March 31, 2023, along with the relevant data/documents.

7. The Noticee, vide its email dated July 10, 2023, provided the following explanations on the allegations levelled against it in the order dated May 26, 2023, passed by the Committee:

a. Revenue from Pro Skill and GSP Division amounting to Rs.3.80 crores shown under free reserves

The Noticee is a GST Suvidha Provider registered with the GST Network. It provides services since 2017. It always shows the profits as part of its net worth computation without any objections being raised. There is no such exclusion stipulated in the formula as prescribed for net worth computation in Schedule VI of the Stock Broker Regulations of SEBI, r/w Regulations 5 (h) and 9 (g).

The following are the profits made by the Noticee from the said division:

Year	Amount (Rs in lakhs)
2019-20	85.52
2020-21	129.81
2021-22	268.35
2022-23	400.78

The above figures are duly reflected in the audited balance sheet and is duly disclosed in the financial account. Therefore, the apprehension of the Committee that this profit does not belong to the Noticee but is booked just to increase the reserves and surplus is incorrect.

b. Assignment of debts to RDSL for a consideration of Rs.8 crores

The Noticee had outstanding dues of Rs.9.06 crores from its depository clients, which it assigned to RDSL for Rs.8 crores, out of which Rs.50 lakhs was paid to the Noticee. The Committee, vide its order dated May 26, 2023, held that the agreement for assignment of the debts must be an afterthought merely because the agreement is alleged to bear inadequate stamp duty. On the basis of this contention, it is alleged that the agreement is for collection of debts and not assignment of debts and rejects the entire said Rs.8 crores even though it is not disputed that Rs.50 lakhs was received from RDSL. Till date, out of the said Rs.8 crores, the Noticee recovered approx. Rs.2.50 crores.

c. Security deposit to Amnos Life Science Private Limited amounting to Rs.3.70 crores shown as other non-current assets

The Noticee provided security deposit of Rs.3.70 crores to Amnos Life Sciences Private Limited. This said security deposit is not against property as stated in the order dated May 26, 2023, but for the marketing management of the

northern India for manufacturing of medicines. This is not a fund-based activity; hence, it is permissible under the extant law.

d. Debtors of business division amounting to Rs.2.35 crores

The Noticee sold certain unlisted securities to third parties in January 2023. The payment was delayed by the buyers. However, this debt cannot be alleged to be due for more than 3 months as of March 31, 2023, since a period of 3 months has not expired.

PRESENT MCSGFC PROCEEDINGS

8. In compliance with the order dated June 9, 2023, passed by the Hon'ble SAT, the Exchange, vide its email dated July 4, 2023, granted the Noticee an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. V D Aggarwal – Director and Mr. Kunal Kataria – Authorized Representative, attended the personal hearing and made the following oral submissions:

a. Revenue from Pro Skill and GSP Division amounting to Rs.3.80 crores shown under free reserves

The Noticee is a GST Suvidha Provider registered with the GST Network. It received profits year after year and are not mere book entries. Therefore, the amount is not deducted while computing the net worth. Furthermore, the activity is not a fund-based activity prohibited under Rule 8(3)(f) of SCRR. In the previous inspections conducted by the Exchange and SEBI, this observation was not pointed out. However, considering that as per the Exchange, the activities undertaken are not related to securities market, the Noticee requested for time to apply for registration of another entity as a GST Suvidha Provider with the GST Network and thereafter transfer its business of GST Suvidha Provider to the other entity.

b. Assignment of debts to RDSL for a consideration of Rs.8 crores

Pursuant to the agreement dated March 22, 2023, executed between the Noticee and RDSL for assignment of debts amounting to Rs.9.06 crores for a consideration of Rs.8 crores, the Noticee received Rs.2.50 crores from RDSL as of date and the balance amount of Rs.5.50 crores will be received within the next two months.

- c. Security deposit to Anmos Life Science Private Limited amounting to Rs.3.70 crores shown as other non-current assets

The Noticee requested time for cancellation of the agreement and refund of the security deposit.

9. Post hearing, the Noticee, vide its email dated July 14, 2023, made additional submissions as under: -

- a. Revenue from Pro Skill and GSP Division amounting to Rs.3.80 crores shown under free reserves

The amount of Rs.3.80 crores is the profits of the Noticee. There is no justification for reducing the said amount from the free reserves while computing the net worth. However, if required, the Noticee may empanel its sister concern with GST Network and shift its business of GST Suvidha Provider to its sister concern upon getting the registration. There are no funds involved while rendering GST related services. It is a service-oriented business. The Noticee reiterated that since the amount of Rs.3.80 crores is the profits of the Noticee, it should not be deducted while computing the net worth.

- b. Assignment of debts to RDSL for a consideration of Rs.8 crores

The Committee reduced the net worth by Rs.8 crores which was due from RDSL on account of the debtor assignment. It received Rs.2.49 crores from RDSL and the rest of the amount will be received within 2 months.

- c. Security deposit to Anmos Life Science Private Limited amounting to Rs.3.70 crores shown as other non-current assets

The amount given to Anmos Life Science Private Limited is the security deposit and does not fall within the purview of Dr. L.C. Gupta Committee's net worth computation method. The agreement with Anmos Life Science Private Limited is for appointing the Noticee as a master agent for its marketing management and the activity is not a fund-based activity. However, the Committee interpreted the security deposit differently. The Noticee assures that in due time, the agreement shall be shifted to its sister concern. In the interim period, this may be allowed to continue as part of the net worth.

d. Debtors of business division amounting to Rs.2.35 crores

Out of debtors amounting to Rs.2.35 crores, the Noticee collected around Rs.1.54 crores, which will further reduce.

e. After giving the effect of the above, the net worth will meet the requirement of Rs.3 crores as under: -

Sr. No.	Particulars	Amount (Rs in crores)
1.	Profit of GST Division which is part of the profit and loss account and balance sheet	3.80
2.	Collection from RDSL	2.49
3.	Collection from other debtors	1.54
4.	Security deposit with Anmos Life Science Private Limited	3.70
Total		11.53
Net worth as calculated by the Exchange		(8.46)
Net worth in positive		3.07

f. The Noticee requested the Committee to grant 2 months to recoup the shortfall in net worth.

CONSIDERATION & FINDINGS

10. The observations/violations, the reply of the Noticee and the findings of the Committee are as under:

10.1 **Shortfall in net worth**

10.1.1 Upon verification of the net worth certificate submitted by the Noticee, certifying a net worth of Rs.20.95 crores vis-a-vis the balance sheet as of March 31, 2021, it is observed that the Noticee incorrectly considered the doubtful debts and advances while computing the net worth. After considering the value of the doubtful debts and advances based on various factors, viz. non availability of ageing for outstanding receivables as per trial balance, tally and/or any other accounting software backup, etc. the net worth of the Noticee stood revised at (-ve) Rs.1 crore.

10.1.2 In reply to the SCN, the Noticee submitted as under: -

- a. While calculating the net worth, the doubtful debts and advances are exorbitantly raised from Rs.1.59 crores to Rs.24.35 crores.
- b. During the forensic audit, the auditor calculated the net worth as Rs.11.62 crores. The auditor, vide its email dated April 21, 2022, sought clarification. The Noticee, vide its email dated April 27, 2022, addressed the query. It is surprising as to how and on what basis the net worth is revised to (-ve) Rs.1 crore in the SCN. The Noticee provided copies of the emails dated April 21, 2022, and April 27, 2022, to the Exchange.
- c. The contention that the alleged violation is erroneous and without basis can be substantiated from the fact that the auditor's own observation differs in terms of what was stated by the auditor in its email dated April 21, 2022, vis-à-vis the observation in the SCN. Before alleging the shortfall and deducting Rs.24.35 crores, the Noticee was not provided an opportunity to explain or justify. Hence, the allegation is influenced by the opinion of the Exchange who conducted subsequent limited purpose inspection from November 2021 to September 2022 and reconstructed doubtful debts and advances after considering the debits in the depository divisions and loans provided by the Noticee to the non-associated entities.
- d. The debtors of the depository division which are disallowed being more than 3 months old are fully secured against the deliveries lying in the demat account worth more than Rs.9,000/- crores. Further, there is no contingency involved regarding these debtors turning bad or doubtful.
- e. Furthermore, the report also includes loans advanced to various entities which do not form part of the associate entities. In this regard, it is pertinent to note that the amounts are advanced to entities other than the associate entities. In terms of Schedule VI of SEBI (Stock Broker and Sub Broker) (Second Amendment) Regulations, 2013, read with Exchange Circular No. NSE/COMP/47555 dated March 8, 2021, loans and advances, etc. to associates including subsidiaries/group companies of the Noticee, irrespective of the time period shall be considered.

"Associate" shall have the meaning as per the definition provided under SEBI (Intermediaries) Regulations, 2008. Accordingly, associate entity means any person controlled, directly or indirectly, by the intermediary, or any person who controls, directly or indirectly, the intermediary, or any entity or person under common control with such intermediary, and where such intermediary is a natural person will include any relative of such intermediary and where such intermediary is a body corporate will include its group companies (as defined in the Monopolies and Restrictive Trade Practices Act, 1969 (Act No. 54 of 1969) or any re-enactment thereof) or companies under the same management.

- f. It is explicitly evident from the aforesaid provision that only loans and advances to associate entities are disallowed to be considered while calculating the net worth and not all loans. In the instant matter, the loans are not advanced to any of the associate entities and thus cannot be disallowed. Furthermore, fully secured debtors (on account of security deposit held with the Noticee) cannot be treated as doubtful merely on account of the debt being 3 months old.
- g. Since audit, the Noticee reduced its depository debts and loans/advances by Rs.1.13 crores and Rs.5.31 crores, respectively. The Noticee provided a copy of the clarification sent to the Exchange. The Noticee provided net worth certificate as of March 31, 2021, certified by the auditor duly certifying adequate net worth of the Noticee.

10.1.3 The Committee finds as under:

Net worth as of March 31, 2021

- a. The Noticee contended that the auditor incorrectly deducted doubtful debts and advances amounting to Rs.24.35 crores from the net worth as of March 31, 2021.

The Committee notes that the auditor adopted the following approach while computing the doubtful debts and advances:

i. **Outstanding trade receivables**

Auditor's Approach	Noticee's Approach
Total outstanding trade receivables (outstanding for more than 6 months + others) as per the signed financials as of March 31, 2021*	Trade receivables (outstanding for more than 6 months) as per the signed financials as of March 31, 2021
Less: Outstanding trade receivables as per trial balance (pertaining to broking business) as per signed financials as of March 31, 2021**	

* *Total trade receivables were considered since the Noticee did not share the ageing analysis for trade receivables.*

** *The ageing for outstanding trade receivables as per the trial balance (pertaining to broking clients) was not shared by the Noticee and assumed to be good. Accordingly, the outstanding trade receivables as per the trial balance (pertaining to broking business) was reduced while computing doubtful trade receivable balance.*

ii. **Non-consideration of outstanding loan balance over 3 months while computing the balance of doubtful debts and advances by the Noticee**

The Noticee relied on Exchange Circular No. NSE/MEM/3090 dated December 31, 2001, wherein it is stated that all advances / loans other than those arising out of securities dealing have to be excluded. The Noticee contended that as per the aforesaid circular, the value of doubtful debts and advances is Rs.1.59 crores instead of Rs.12.44 crores

The Committee notes that the auditor relied on Exchange Circular No. NSE/COMP/47555 dated March 8, 2021, wherein it is stated that any loans and advances overdue by 3 months have to be reduced. Accordingly, the auditor reduced the loans and advances amounting to Rs.12.13

crores overdue by 3 months by considering the tally ledgers provided by the Noticee and a ledger provided by the Exchange pertaining to outstanding loans and advances but disclosed under “Advance recoverable in cash or in kind - Other Current Assets” in the signed financial statement as of March 31, 2021.

As per Dr. L.C. Gupta Committee’s net worth computation method, doubtful debts are non-allowable assets and are required to be deducted while computing the net worth. The Noticee did not consider trade receivables outstanding for more than 3 months amounting to Rs.12.22 crores and loans/advances outstanding for more than 3 months amounting to Rs.12.13 crores as doubtful debts totaling to Rs.24.35 crores.

As per Exchange Circular No. NSE/COMP/47555 dated March 8, 2021, doubtful debts are required to be deducted while computing the net worth. Doubtful debts and advances include the following: -

- Debts or advances overdue for more than three months.
- Wherever a provision is created for doubtful/bad debts, net amount, i.e. after reducing provision made for doubtful/bad debts shall be considered.
- Any amount given in the nature of loans, advances etc. to the associates including subsidiaries/group companies of the member, irrespective of time period shall be considered.
- ‘Associate’ shall have the meaning as per the definition provided under SEBI (Intermediaries) Regulations, 2008.

In view of the above, doubtful debts and advances amounting to Rs.24.35 crores is required to be deducted while computing the net worth.

- b. The net worth of the Noticee stood at (-ve) Rs.1 crore as of March 31, 2021, which is below the minimum net worth of

Rs.1 crore prescribed for the Noticee by the Exchange. The details are as under:

As of March 31, 2021

Particulars	Net worth as per Noticee (Rs)	Net worth as per Forensic Auditor (Rs)	Difference (Rs)
Capital	8.65	8.65	-
Free reserves	17.67	17.67	-
Total (A)	26.32	26.32	-
Less: Non-allowable assets			-
(a) Fixed assets	1.67	1.67	-
(b) Pledged securities	-	-	-
(c) Member's card	0.83	-	(0.83)
(d) Non-allowable securities (unlisted securities)	1.00	1.00	-
(e) Bad deliveries	-	-	-
(f) Doubtful debts and advances	1.59	24.35	22.76
(g) Prepaid expenses, losses			-
(h) Intangible assets	0.12	0.12	-
(i) 30% of marketable securities	0.18	0.18	-
Total (B)	5.39	27.32	
Net worth (A-B)	20.93	(1.00)	(21.93)

Net worth as of March 31, 2023

- c. The Noticee contended that it entered into an agreement with RDSL for assignment of business debts amounting to Rs.9.06 crores as of February 28, 2023, for a consideration of Rs.8 crores to RDSL on March 22, 2023.

The Committee notes that the aforesaid agreement can only be considered as an arrangement to collect the debts and is not an assignment of debts for the following reasons: -

- i. There is no notice given to the clients for change of creditors.
- ii. Since RDSL is not registered as an ARC with RBI, it is not eligible for exemption of stamp duty. Moreover, since the said agreement is executed in Delhi, the provisions of Delhi Stamp Act would be applicable. As per the Stamp Act applicable to Delhi, for assigning unsecured debts, the stamp duty payable is 5% of the consideration. As the parties have executed the agreement on a Rs.100/-

stamp paper, the requisite stamp duty required for the deed of assignment is not paid by the parties.

In view of the above, it is observed that the aforesaid agreement executed between the Noticee and RDSL is invalid and an afterthought against the observations made by the Exchange.

- d. The Noticee contended that the amount given to Anmos Life Science Private Limited is a security deposit and does not fall within the purview of Dr. L.C. Gupta Committee's net worth computation method. The agreement with Anmos Life Science Private Limited is for appointing the Noticee as a master agent for its marketing management and the activity is not a fund-based activity. The Noticee assured that in due time it will shift the agreement to its sister concern.

The Committee notes that out of the security deposit amounting to Rs.3.70 crores given to Anmos Life Science Private Limited, Rs.3.50 crores are outstanding for more than 3 months and required to be deducted from capital and free reserves while computing the net worth.

- e. The Noticee contended that the revenue from Pro Skill and GSP division is the profits of the Noticee and there is no justification for reducing the said amount from the free reserves while computing the net worth. However, if required, the Noticee may empanel its sister concern with GST Network and shift its business of GST Suvidha Provider to its sister concern upon getting the registration. There are no funds involved while rendering GST related services.

The Committee opined that as the revenue/profit accrued do not pertain to securities business, it will not form part of the free reserves and will be deducted while computing the net worth.

- f. Regarding debtors of business division amounting to Rs.2.35 crores, the Noticee contended that it sold certain unlisted securities to third parties in January 2023. However, the payment was delayed by the buyers. This debt cannot be alleged to be due for more than 3 months as of March 31, 2023, as the period of 3 months had not expired.

The Committee notes that the debtors (108 parties) of the business division show "debtor against sale of share" amounting to Rs.2.35 crores as of March 3, 2023. The sample ledgers of 37 debtors indicate that such debit balance was created by selling various unlisted shares, including AMSPL and AFSP, during January 2023. The value of unlisted shares was Rs.0.96 crore as of March 31, 2022.

Despite email dated April 19, 2023, issued by Exchange, the Noticee did not provide an explanation for transactions of sale of unlisted shares of AMSPL and AFSP (which were not reflected in holding as of March 31, 2022). Furthermore, the Noticee did not provide the details of recovery of debtors of unlisted shares amounting to Rs.2.35 crores.

In the absence of adequate clarification and documentary evidence, the contention of the Noticee is not acceptable. The value of debtors against sale of unlisted shares are required to be deducted as doubtful debts and advances.

- g. In view of the above, the revised net worth of the Noticee is (-ve) Rs.8.76 crores as of March 31, 2023, which is below the minimum net worth of Rs.3 crores prescribed for the Noticee by the Exchange. The details are as under: -

(Rs in lakhs)

Particulars	Net worth as per Noticee	Net worth as per Exchange	Difference
Capital	865.00	865.00	
Free reserves*	1,973.39	1,572.66	400.73
Total (A)	2,838.39	2,437.66	
Less: Non-allowable assets			
(a) Fixed assets	155.16	155.16	
(b) Pledged securities	-	-	
(c) Member's card	82.50	82.50	
(d) Non-allowable securities	-	-	
(e) Bad deliveries	-	-	
(f) Doubtful debts and advances**	1,515.28	2,846.60	1,331.32
(g) Prepaid expenses, losses	1.67	1.67	
(h) Intangible assets	176.66	176.66	
(i) 30% of marketable securities	44.64	50.98*	

Total (B)	1,975.91	3,313.57	
Net worth (A-B)	862.48	(875.91)	

* The Noticee made non-current investments amounting to Rs.21.12 lakhs in gold which is required to be deducted under 30% of marketable securities, i.e. Rs.6.34 lakhs.

- h. In view of the above, the Noticee violated the provisions of Rule 33 of Chapter III of the Rules of the Exchange for continued admittance by failing to maintain the minimum net worth of Rs.3 crores prescribed by the Exchange.

10.1.4 Given the findings mentioned above, the Committee directed the Noticee to recoup the shortfall in net worth within 2 months from the date of this order to the satisfaction of the Exchange, failing which the trading terminals of the Noticee shall be disabled.

10.2 **Shortfall of clients' funds**

10.2.1 Upon verification of the reconstructed client balances as of March 31, 2021, it is observed that the Noticee used the funds of credit balance clients to meet the settlement obligations of debit balance clients and/or own purpose to the extent of Rs.3.60 crores, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers.

10.2.2 In reply to the SCN, the Noticee submitted as under:

- a. The Noticee denied the observation. The SCN does not substantiate the allegation that funds of credit balance clients were used for debit balance clients or for own purposes.
- b. The client balances in the trading account reflect the true picture of trading division books and the client balances in the demat account reflect the true picture of depository division books. It is erroneous to mix the accounts of two separate divisions and wrongly depict a deficit.
- c. The reconstructed credit balances and balances with Clearing Member and the exchanges are incorrect and does not show the true picture of the books of accounts. The correct credit

balances amount to Rs.1.91 crores and correct balances with the exchanges amount to Rs.1.10 crores based on the books of accounts maintained. The Noticee provided complete bifurcation of the credit balances to the Exchange for verification.

10.2.3 The Committee finds as under:

- a. The Noticee contended that the auditor considered incorrect credit balances and the balance with the clearing corporations/exchanges while calculating the value of 'G' thereby arriving at a shortfall.

However, the Noticee failed to provide documentary evidence, viz. client ledgers, trial balance etc. in support of its contention. In the absence of documentary evidence, the violation persists.

- b. The Noticee violated the provision of Regulation 4.5.3 (e) of the NSEIL Regulations (CM and F&O Segments) and Clause 3.3.1 of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016.

10.2.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.10.80 lakhs (3% of the misuse amount, i.e. Rs.3.60 crores) for the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

10.3 **Misrepresentation of data to the Exchange**

10.3.1 Upon verification of the reconstructed client balances as of March 31, 2021, it is observed that the Noticee misrepresented/mis-stated the balances as per the books of accounts by posting fund transfer entries in the client ledgers without actual fund transfers to the clients.

A summary of the revised balances of debtors and creditors (after considering the bill entries, receipts/payments from/to clients, journal voucher entries and other expenses) is as under:

Amount in Rs.

Nature	Reconstructed Balance		Trial Balance		Difference	Nature
	Clients (A)	Amount (B)	Clients (C)			
Debtors	127	1,47,47,651	122	Debtors	127	1,47,47,651
Creditors	806	5,85,81,830	660	Creditors	806	5,85,81,830

10.3.2 In reply to the SCN, the Noticee submitted as under:

- a. The observation is erroneous and misconceived. The Noticee explained the transactions in detail to the auditor with each client entry duly elucidated and clarified. The Noticee runs two different business segments, i.e. trading and depository. Most of the clients are common in trading and depository segments and hold accounts under both the segments.
- b. The allegation of transfer entries without fund transfer is an erroneous observation as the obligation thereunder was actually transferred from trading account of clients to demat account of the respective clients in the depository division upon instructions and due knowledge of the clients themselves. Furthermore, there are no statutory/legal restrictions with regard to transfer of funds from one division to another of the same client. The Noticee provided sample ledgers of the clients for trading and depository divisions to the Exchange for verification.
- c. The Exchange duly verified all the transactions observed in the SCN in a subsequent inspection carried out from May 31, 2022, and did not find any discrepancy or diversion of clients' funds.
- d. The Noticee made transfers from trading account to depository account after due intimation to the clients as it duly issued statements to the clients and reported to the exchanges. The Noticee provided sample logs of emails sent to the clients for verification. The data submitted to the exchanges is also forwarded to the clients through SMS/email. The transfers are genuine. The fact that the clients neither objected nor raised complaints till date substantiates its contention in this regard. Even the exchanges send statements of balance to the clients and none of the clients have questioned or challenged the account balance.

- e. Upon objections raised by the exchanges with regard to such transfers in subsequent limited purpose inspections, the Noticee duly informed its clients and discontinued the said practice with effect from December 7, 2021. As per the instructions of the Exchange dated January 27, 2022, the Noticee transferred the funds from the demat accounts of depository division to the trading division and settled the clients' accounts and provided the instance-wise supporting in its submissions dated March 16, 2022. This can be validated from the findings and observations of the SEBI joint inspection along with other exchanges conducted from May 31, 2022, for the period October 1, 2021, to May 31, 2022.

10.3.3 The Committee finds as under:

The Noticee contended that it runs two different business, i.e. trading and depository, and the clients are registered in both the segments. The Noticee transferred the funds from trading account to depository account after due intimation to the clients.

Upon verification of the client ledgers, it is observed that the balances as per the books of accounts as of March 31, 2021, are misstated as the Noticee passed fund transfer entries in the client ledgers without any actual fund transfer to the clients. Furthermore, it is observed that the Noticee subsequently reversed these entries in the client ledgers. The Noticee did not provide a satisfactory explanation in this regard. In the absence of any explanation/clarification, the violation persists.

- 10.3.4 Considering that the observation/violation pertaining to misrepresentation of data to the Exchange led to shortfall of clients' funds and the Committee has levied a monetary penalty of Rs.10.80 lakhs for the shortfall of clients' funds, the Committee decided not to levy a monetary penalty for the observed violation and warn Abhipra to ensure non-recurrence of the observed violation.

10.4 Engagement as a principal in a business other than securities involving personal financial liability

10.4.1 Upon review of the financial statements of the Noticee, it is observed that "other loans and advances" formed part of the long-term loans and advances in the balance sheet amounting to Rs.9.59 crores, Rs.11.76 crores and Rs.11.60 crores for the financial years 2018-19, 2019-20, and 2020-21, respectively. The details of the parties to whom loans and advances are provided are not reflected in the financial statements provided by the Noticee. The Noticee did not provide access to the tally data. The auditor was unable to review the records kept in tally which form part of the financial statements of the Noticee. The ledgers relating to the parties were submitted subsequently.

The Noticee earned interest amounting to Rs.3.03 crores on loans and advances and paid TDS amounting to Rs.0.19 crore.

A summary of loans and advances is as under: -

Party Name	Opening Balance	Loan Granted	Loan Repayments	Interest	TDS	Amount in Rs
						Closing Balance as of 31-Mar-21
Rachna Sagar Pvt Ltd	3,41,70,726	15,00,000	2,02,45,680	83,68,766	7,80,627	2,30,13,185
Unnati Construction Pvt Ltd	-	54,17,593	35,00,000	9,76,984	85,463	28,09,114
Alert Buildwell Private Limited	-	46,18,091	13,50,000	6,40,000	60,945	38,47,146
True Value Apartments Private Ltd	-	39,68,000	2,80,000	5,60,000	49,000	41,99,000
NMVA Global Ventures LLP	-	62,15,000	81,000	3,50,000	26,250	64,57,750
Express Buildtech LLP	-	97,05,018	4,20,000	6,72,000	50,400	99,06,618
Gudiya Impex (Prop. Rahul Aggarwal)	-	1,12,40,269	30,00,000	26,74,520	2,32,960	1,06,81,829
Action Energy Private Limited (Advance Against Property)	3,12,42,006	-	-	68,34,272		3,80,76,278
Bimal Aggarwal HUF	-	1,36,22,556		34,34,060		1,70,56,616
Leisure City India Pvt Ltd	4,49,56,647		5,01,93,374	58,18,585	5,81,858	-
Total						11,60,47,536

Upon review of the Noticee's bank A/c. No. 1470009900000031 with Punjab National Bank, it is observed that the Noticee transacted with parties other than those who form part of loans and advances as per the financial statements.

10.4.2 In reply to the SCN, the Noticee submitted as under:

- a. The observation regarding non-provision of access to financial data is erroneous as the scope of forensic audit did not cover the audit of financial/tally data. On request of the auditor, the Noticee provided the tally data.
- b. There is no violation regarding long-term loans and advances forming part of the balance sheet amounting to Rs.9.59 crores, Rs.11.76 crores and Rs.11.60 crores for the financial years 2018-19, 2019-20 and 2020-21, respectively.
- c. The loans and advances to a third party is not violative of the provisions of Securities Contracts (Regulation) Rules, 1957 as advancing loan/funds does not involve incurring any personal financial liability. The provisions of SEBI Circular No. SMD/POLICY/CIR-6/97 dated May 7, 1997, should be read with provisions of SEBI Circular No. SMD/POLICY/CIR-9/97 dated May 7, 1997. The said circulars were issued to allow securities lending and borrowing by Trading Members and in no way restricts them from carrying on any activity which does not involve personal financial liability.
- d. The Noticee legitimately carries on the business as Depository Participant, Point of Presence, GST Suvidha Provider, Corporate Business Correspondent with banks. All the said businesses are duly allowed under the provisions of Rule 8(3)(f) of SCRR as they do not entail any personal financial liability. Similarly, if any loans/advances are extended to any entity in the course of business, it is not violative of the provisions of Rule 8(3)(f) of SCRR as the Noticee did not incur any personal financial liability. Furthermore, the Noticee extended loans/advances out of own surplus funds and earned interest on the said loans/advances.
- e. Due to lack of clarity in the market, the Exchange issued Circular No. NSE/COMP/50957 dated January 7, 2022, clarifying that entering into any arrangement for extending loans or giving deposits/advances to any entity, including group companies such as subsidiaries and associates etc., not in connection with or incidental to or consequential upon the securities/commodity derivatives business is disallowed under Rule 8(3)(f) of SCRR.

- f. In case of more than one interpretation, the balance of convenience should be in favor of the party against whom the allegation is made. Furthermore, post-issuance of the circular by the Exchange on January 7, 2022, regarding activities that can be construed as non-compliance with Rule 8(1)(f) and Rule 8(3)(f) of SCRR, the Noticee is in the process of reducing the loans/advances to NIL.

10.4.3 The Committee finds as under:

- a. The Noticee denied the observation/alleged violation and contended that it did not engage as a principal or employee in a business other than that of securities involving personal financial liability. It legitimately carries on the business as Depository Participant, Point of Presence, GST Suvidha Provider, Corporate Business Correspondent with banks, which is duly allowed under the provisions of Rule 8(3)(f) of SCRR as the Noticee does not entail any personal financial liability. It extended loans/advances out of own surplus funds and earned interest on the said loans/advances.
- b. The Committee notes that Rule 8(3)(f) of SCRR requires that Trading Members of a stock exchange, except those provided under Rule 8(8) of SCRR, shall not engage either as principal or employee, in any business, other than that of securities or commodity derivatives, except as a broker or agent, not involving any personal financial liability.
- c. Exchange Circular No. NSE/COMP/50957 dated January 7, 2022, clarified that entering into any arrangement for extending loans or giving deposits/advances to any entity, including group companies such as subsidiaries and associates etc., not in connection with or incidental to or consequential upon the securities/commodity derivatives business, is construed as non-compliance with Rule 8(3)(f) of SCRR. Hence, the violation persists.

- 10.4.4 Given the findings mentioned above, the Committee decided to (a) levy a monetary penalty of Rs.5,00,000/- for the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021, and (b) direct the Noticee to recover the loans/advances within 3 months from the date of this order.

10.5 Non-segregation of client and own funds

10.5.1 Upon review of the bank books provided by the Noticee, it is observed that the Noticee transferred funds between client and own bank accounts involving a net transfer of Rs.1.11 crores from own account to client/settlement accounts. The Noticee failed to maintain the daily reconciliation statement clearly indicating the amount of funds transferred. In the absence of a daily reconciliation statement, it is construed that the Noticee failed to segregate the client and own funds. The details are as under:

Sr.	Particular	Amount (Rs in crores)
A	Net transfer from client bank account to own account	48.68
B	Net transfer from own bank account to settlement account	28.55
C	Net transfer from A/c. No. 000405026630 with ICICI Bank (undisclosed account, treated as own bank account) to settlement account and client account	14.69
D	Brokerage and other charges	6.55
E	Net transfer from own account to client/settlement account [E = (B+C+D-A)]	1.11

10.5.2 In reply to the SCN, the Noticee submitted as under:

The observation is erroneous and without any cogent proof of illegitimate transfer of funds. The observation states that there is a net transfer of Rs.1.11 crores from own account to client/settlement account indicating that there is no diversion or misuse of clients' funds. The Rules and Regulations of the Exchange allow legitimate transfers of funds in the nature of brokerage, statutory dues etc. from one account to another. The Exchange did not identify any wrongful transaction.

10.5.3 The Committee finds as under:

- a. The Noticee contended that the fund transfers from client account to own account were in the nature of brokerage, statutory dues etc. Furthermore, the net transfer of Rs.1.11

crores is from own account to client/settlement account indicating that there is no diversion or misuse of clients' funds.

The Committee notes that the Noticee did not provide documentary evidence to substantiate that the fund transfers from client account to own account were for legitimate purpose. Furthermore, the Noticee failed to provide daily reconciliation statement clearly indicating the amount of funds transferred between own bank account to client bank account.

- b. As per Exchange Circular No. NSE/INSP/2016/33276 dated September 27, 2016, Trading Members are required to maintain a daily reconciliation statement clearly indicating the amount of funds transferred. Thus, the Noticee violated the regulatory provision mentioned above by failing to segregate the transactions between own bank account and client bank account.

- 10.5.4 Considering that the net transfer of funds is from own bank account to client bank account, the Committee decided to advise the Noticee to ensure non-recurrence of the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

10.6 **Non-settlement of clients' funds**

- 10.6.1 Upon verification of the settlement declaration, reconstructed register of securities, and reconstructed client balances, it is observed that the end of the day ledger balance in all 60 instances selected for sample scrutiny (100% of total instances verified) amounting to Rs.0.70 crore mentioned in the set-off sheet was the amount after passing fund transfer entry whereby the balance on the date of actual settlement is either reduced to 'NIL' or to an amount enough to cover the obligation of the respective client. It is further observed that these fund transfer entries were later reversed post the settlement date.

- 10.6.2 In reply to the SCN, the Noticee submitted as under:

- a. The Noticee settled all the clients as per the requirements of periodical settlement of funds and securities and sent

statements to each and every client. The observation is based on the findings made in relation to the reconstructed balances, which in itself is incorrect. Furthermore, the Noticee did not receive any objection/complaint from any client regarding non-settlement of the funds and securities.

- b. Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, allows discretion of the clients in regard to settlement of funds. The Noticee settled the clients' funds by transferring the funds to its depository account at the request of the clients to facilitate ease of trade. The Noticee subsequently modified the said practice. The Noticee provided documentary evidence in support of its claim during the inspection.

10.6.3 The Committee finds as under:

- a. The Noticee contended that it settled the clients' funds by transferring the credit balances of the clients to the depository account of the Noticee at the request of the clients.

The Committee notes that upon verification of the client ledgers, it is observed that the Noticee passed journal voucher entries for transfer of credit balances of clients to the depository account thereby reducing the balances of the clients to NIL or to an amount enough to cover the obligation of the clients on the settlement date. These entries were subsequently reversed after the settlement date. Such a transfer is not tantamount to settlement of clients' funds. Hence, the Noticee's contention is not acceptable, and the violation persists.

Post-inspection, the Noticee settled all the clients. However, post-inspection compliance does not absolve the Noticee from the violation committed.

- b. The concept of monthly or quarterly running settlement of clients' accounts by the Trading Member as per client preference is incorporated in Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, to instill greater transparency and discipline in the dealings between the clients and the stockbrokers. Non-settlement of clients' accounts is prejudicial to the investors' interests. Thus, the

Noticee violated the regulatory provisions mentioned above by failing to settle the clients' accounts.

10.6.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.2,00,000/- for the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

10.7 **Non-reconciliation of securities**

10.7.1 Upon verification of the reconstructed register of securities vis-à-vis the back-office holdings as of March 31, 2021, it is observed that the Noticee failed to reconcile the securities. The details are summarized as under:

Particulars	Instances	Amount (Rs)
Back-office holding is "0" but reconstructed ROS holding is more than the back-office holding (short securities)	78	1,08,276
Back-office holding is "0" and reconstructed ROS holding is less than back-office holding (excess securities transferred)	119	2,33,737
	197	3,42,013

Further, while reconstructing the register of securities, differences between back-office holdings and depository holdings were identified as of April 1, 2018. As per the Noticee, these holdings pertain to own securities and do not form part of the demat ledger. Furthermore, these holdings pertain to transactions which were undertaken prior to the review period, i.e. April 1, 2018, to March 31, 2021. The value of these holdings is Rs.2.63 crores as of March 31, 2021. The Noticee did not provide supporting documents for these transactions. In the absence of supporting documents, the beneficiary owners cannot be identified.

10.7.2 In reply to the SCN, the Noticee submitted as under:

a. The observation is erroneous and without comprehension of complete facts and data submitted to the auditor. During the audit, the Noticee provided detailed written submissions explaining each and every transaction with adequate

documentary evidence. However, the auditor failed to consider the said submissions. Furthermore, simple entries relating to bonus issues, split etc. were also ignored while alleging non-reconciliation.

- b. The observation pertaining to the difference in back-office holdings and depository holdings amounting to Rs.2.63 crores is beyond the scope of the audit period and is unlawful to mention the same in the SCN. Without prejudice to the same, the said securities are proprietary holdings which have been held by the Noticee for almost a decade. The observation that in the absence of supporting of these transactions, the beneficial owners could not be identified, is unsustainable for the reason that it is beyond the scope of forensic audit.
- c. The auditor verified the opening balances of securities lying in pool account/margin account with the Noticee in respect of each client and did not find any discrepancy. The securities are duly reconciled.

10.7.3 The Committee finds as under:

- a. The Noticee contended that it duly reconciled the securities and there is no discrepancy. These securities were sold/purchased by the clients during inspection period.

Upon verification of the transaction statement, it is observed that the securities were transferred from demat account against the settlement obligation before March 31, 2021. However, this was not recorded in the back-office records.

- b. Post-inspection, the Noticee provided instance-wise reply. The Noticee contended that these securities were transferred against the settlement obligation, or these securities were purchased by client and the same were transferred to the client's account.

Upon verification of the transaction statement, it is observed that these securities were not available in the demat account but were recorded in the back-office records.

- c. The Noticee contended that the difference between back-office holdings and depository holdings as of April 1, 2018, is

due to own holdings which do not form a part of the demat ledger. These holdings pertain to transactions which were undertaken prior to the review period. The value of the securities is Rs.2.63 crores as of March 31, 2021.

However, the Noticee failed to provide documentary evidence in support of its contention. In the absence of documentary evidence, the violation persists.

- d. The Noticee violated the provisions of Exchange Circular No. NSE/INSP/10605 and NSE/INSP/29096 dated April 21, 2008, and March 11, 2015, respectively, by failing to reconcile the securities recorded in the back-office periodically.

10.7.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.25,000/- for the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

10.8 **Non-reporting of bank accounts to the Exchange**

10.8.1 Upon verification of the bank account statements provided by the Noticee vis-à-vis the list of bank accounts reported by the Noticee to the Exchange, it is observed that the Noticee did not report 19 bank accounts to the Exchange.

10.8.2 In reply to the SCN, the Noticee submitted as under:

- a. The observed bank accounts do not pertain to the trading segment of the Exchange and pertain to various other segments. Furthermore, most of these bank accounts are closed and not active during the audit period. The Noticee provided the details of segment/business pertaining to each bank account.
- b. Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, requires Trading Members to inform stock exchanges of existing and new bank accounts and not all the bank accounts held by the Trading Members in other business segments. The Noticee, being a stock broker, depository participant, Point of Presence, corporate business

correspondent, GST Suvidha Provider, is only required to report stock broking bank accounts to the Exchange.

10.8.3 The Committee finds as under:

The Noticee contended that the observed bank accounts do not pertain to the trading segment of the Exchange.

The Noticee's contention is not acceptable. As per Clause 2.1 of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the Noticee is required to report the existing and new bank accounts to the Exchange. The observed bank accounts are opened in the name of "Abhipra Capital Limited"; hence, the Noticee is required to report all the bank accounts to the Exchange. The Noticee violated the regulatory provisions mentioned above by failing to report the bank accounts to the Exchange.

10.8.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.5,000/- for the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

10.9 **Non-maintenance of books of accounts in prescribed format**

10.9.1 Upon verification of the client ledgers, register of securities, and bank books, it is observed that the Noticee did not maintain its books in the prescribed format.

10.9.2 In reply to the SCN, the Noticee submitted as under:

- a. The Noticee maintains all trading books/records in the software, i.e. Shilpi Computers Private Limited, which is approved by the stock exchanges and SEBI. During the audit, there was a software issue while downloading the information in the format required by the auditor. The Noticee requested the software team to resolve the issue. The Noticee provided the copy of the email.

- b. The observed mismatch in the format pertains to basic details/fields which are always maintained and recorded in the software, without which, the Noticee would not be able to maintain and run the trading transactions. The Noticee provided sample reports downloaded from the same software which duly reflect all the required fields/particulars.

10.9.3 The Committee finds as under:

- a. The Noticee attributed the observation/violation to a back-office software error.
- b. The Noticee violated the provisions of Exchange Circular No. NSE/INSP/38743 dated August 30, 2018, by failing to maintain client ledgers, register of securities, and bank books in the prescribed format.

10.9.4 Given the finding mentioned above, the Committee decided to levy a monetary penalty of Rs.75,000/- for the observed violation in terms of the Exchange Circular NSE/INSP/45457 dated February 25, 2021.

DECISION

11. In view of the above, the Committee levies the following penalties as indicated against each of the violations:

Sr. No.	Committee's Findings	Prescribed penalty as per Exchange Circular No. NSE/INSP/47457 dated February 25, 2021	Penalty
a.	Shortfall in net worth	No prescribed penalty	Direction to recoup the net worth within 2 months from the date of the order to the satisfaction of the Exchange, failing which the trading terminals shall be disabled.
b.	Shortfall of clients' funds to the extent of Rs.3.60	Misuse above Rs.2 crores and less than	Rs.10,80,000/- (3% of Rs.3.60 crores)

	crores as of March 31, 2021	Rs.10 crores : Up to 3% of misuse amount	
c.	Misrepresentation of data to the Exchange	No prescribed penalty	Warning (reason enumerated above)
d.	Engagement as a principal or employee in a business other than securities involving personal financial liability to the extent of Rs.11.60 crores	Amount involved > Rs.5 crores : Penalty of Rs.5 lakhs + No new clients if funds given as loans / advances are not recovered within the time allotted	Rs.5,00,000/- + Direction to recover the loans/advances within 3 months from the date of this order.
e.	Non-segregation of client and own funds involving net fund transfer of Rs.1.11 crores from own to client/settlement accounts	Less than 2% of number of instances - Advise	Advise (reason enumerated above)
f.	Non-settlement of clients' funds and securities in all 60 instances selected for sample scrutiny (100% of total instances verified) involving Rs.0.70 crore	More than 50% of sample instances verified and violation observed is for more than 10 clients : Rs.2,00,000/-	Rs.2,00,000/-
g.	Non-reconciliation of securities as of March 31, 2021	Rs.25,000/-	Rs.25,000/-
h.	Non-reporting of 19 bank accounts to the Exchange	Rs.5,000/-	Rs.5,000/-
i.	Non-maintenance of (i) client ledgers, (ii) register of securities, and (iii) bank book in the prescribed format	Rs.25,000/- per book	Rs.75,000/-
Total			Rs.18,85,000/-

12. The Noticee is directed to pay a monetary penalty of Rs.18,85,000/- (Rupees Eighteen Lakhs Eighty-Five Thousand only) as indicated above.
13. The Noticee is directed to note the non-monetary penalties as indicated above and ensure non-recurrence of the observed violations.
14. The Noticee shall recoup the net worth within 2 months from the date of this order to the satisfaction of the Exchange, failing which the trading terminals shall be disabled in all segments.

15. Till the recoupment of net worth by the Noticee to the satisfaction of the Exchange:

15.1 The Noticee shall be prohibited from registering new clients.

15.2 The terminals of the Noticee shall be disabled in the derivatives segment.

15.3 The settlement of client obligations shall be done by the Noticee on a bill-to-bill basis and the Noticee shall submit a fortnightly certificate certified by a Chartered Accountant to that effect to the Exchange.

Sd/-
Mona Bhide
(Chairperson)

Sd/-
K Narasimha Murthy
(Committee Member)

Sd/-
S Ravindran
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Date: September 25, 2023