

**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 September 22, 2022**

**In the matter of Trading Member M/s. Century Finvest Private Limited**

**CORAM:**

|                              |                    |
|------------------------------|--------------------|
| Ms Mona Bhide                | - Chairperson      |
| Mr K Narasimha Murthy        | - Committee Member |
| Ms Anuradha Rao              | - Committee Member |
| Mr Ranganayakulu Jagarlamudi | - Committee Member |
| Mr Ashishkumar Chauhan       | - Committee Member |

**ALSO PRESENT:**

|                     |                            |
|---------------------|----------------------------|
| Ms Priya Subbaraman | - Chief Regulatory Officer |
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**BACKGROUND**

1. **M/s. Century Finvest Private Limited ("Noticee")** is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") in the Capital Market ("**CM**"), Futures & Options ("**F&O**") and Currency Derivatives ("**CD**") segments.
2. The Exchange conducted a limited purpose inspection of the Noticee's books of accounts and records covering the period from April 1, 2019, to July 17, 2020, in August 2020. Post-inspection, the Exchange issued a show-cause notice ("**SCN-1**") dated September 9, 2020, to the Noticee to seek an explanation for the observed non-compliances with the regulatory provisions. The Exchange, vide its emails dated October 20, 2020, and November 3, 2020, requested the Noticee to submit its reply to the SCN. However, despite seeking extension of time vide its emails dated September 19, 2020, and October 26, 2020, the Noticee failed to submit its reply to the SCN-1.
3. During the above inspection, the Exchange observed misuse of clients' funds and securities. Accordingly, the Exchange appointed a forensic auditor to conduct a forensic audit of Noticee's books of accounts and records. The period for review was April 1, 2018, to March 31, 2021. Post-inspection, the Exchange issued a show-cause notice ("**SCN-2**") dated July 21, 2022, to the Noticee to seek an explanation for the observed non-compliances with the regulatory provisions. The Noticee, vide its email dated August 16, 2022, replied to SCN-2.

**INSPECTION OBSERVATIONS/VIOLATIONS**

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

**SCN-1**

4.1. Misuse of clients' funds and securities

4.1.1. Shortfall of clients' funds to the extent of Rs.1.14 crores as of July 17, 2020

4.1.2. Shortfall of clients' securities to the extent of Rs.2.38 crores as of July 17, 2020

4.1.3. Use of securities of one client to meet the obligations of other clients in 55 out of 107 instances to the extent of Rs.3.22 crores

4.1.4. Use of funds of credit balance clients to meet the margin obligations of the debit balance clients to the extent of Rs.1.01 crores as of July 17, 2020

4.2. Non-reconciliation of securities recorded in the back-office vis-à-vis securities available in the beneficiary accounts as of July 17, 2020

4.3. Non-settlement of funds and securities of 461 out of 2013 inactive clients to the extent of Rs.2.50 crores as of July 17, 2020

4.4. Discrepancies in the client-wise back-office holdings, i.e. securities worth Rs.5.96 crores belonging to 308 clients appeared negative

4.5. Non-maintenance of the register of securities in the prescribed standard format and non-recording of the trades in the register of securities

4.6. Incorrect reporting of data in the weekly monitoring of clients' funds as of July 17, 2020

**SCN-2**

4.7. Shortfall of clients' securities to the extent of Rs.13.83 crores as of March 31, 2021

4.8. Shortfall of clients' funds to the extent of Rs.13.64 crores as of March 31, 2021

4.9. Shortfall in net worth, i.e. net worth of Rs.0.57 crores as of March 31, 2021

4.10. Non-maintenance of books of accounts in the prescribed format

**4.11. Misrepresentation of books of account**

- 4.11.1. Misrepresentation of transactions in ledgers (manipulation of transactions in the F&O Segment)
- 4.11.2. Misrepresentation in the audited financial statement
- 4.11.3. Adjustment of cash balances
- 4.11.4. Mismatch in bank books vis-à-vis bank statements

**PREVIOUS PROCEEDINGS BEFORE MCSGFC**

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

**5.1. September 23, 2020**

- a. The Exchange, vide its email dated September 15, 2020, granted the Noticee with an opportunity of a personal hearing before the Committee.
- b. The Noticee, vide its emails dated September 19, 2020, sought an adjournment and extension of time to file its reply to the SCN-1 on the grounds of COVID-19 pandemic, ongoing lockdown, and shortage of staff.
- c. In the interest of natural justice, the Committee considered the Noticee's request for extension of time to file its reply to the SCN-1.
- d. Thereafter, the Exchange and the Noticee exchanged several emails regarding submission of reply to the SCN-1. However, the Noticee failed to submit its reply to the SCN-1 to date.

**5.2. November 13, 2020**

- a. The Exchange, vide its email dated November 7, 2020, granted the Noticee with an opportunity of a personal hearing before the Committee. However, the Noticee neither replied to the email nor submitted its reply to the SCN-1.
- b. Based on the material available on record, the Committee was of prima facie view that the Noticee committed violations as alleged in the SCN-1. Therefore, to protect the interest of the investors in the securities market, the Committee issued the following interim directions: -
  - i. The trading terminals of the Noticee shall be disabled in all segments with immediate effect.

- ii. The Noticee shall recoup the shortfall of clients' funds and securities, settle the clients' funds and securities, and submit evidence to the Exchange immediately.
- iii. The Noticee shall be restrained from registering fresh clients across segments till further direction.
- c. The Committee advised the Exchange to take steps to invoke the provisions of the SEBI Circular No. SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 1, 2020, relating to standard operating procedures in the cases of Trading Member/Clearing Member leading to default.
- d. The Exchange, vide its email dated January 4, 2021, forwarded the interim order of even date to the Noticee.

### **PRESENT PROCEEDINGS BEFORE MCSGFC**

6. The Exchange, vide its email dated September 15, 2022, granted the Noticee with an opportunity of personal hearing before the Committee. Mr. Munish Bansal - Designated Director, on behalf of Noticee, appeared for the personal hearing and made the following oral submissions:
  - a. The Noticee cleared all its losses. It settled majority of its clients' accounts by selling its properties and shall settle the balance clients' accounts by selling the securities available with the Exchange.
  - b. The Noticee filed an application for surrender of its trading membership with the Exchange. The Noticee requested the Committee to accept its application for surrender of trading membership and not to levy monetary penalties considering the huge losses faced by the Noticee.

### **RELEVANT REGULATORY PROVISIONS**

7. At the outset, it is appropriate to refer to the relevant regulatory provisions mentioned in the SCN-1 and SCN-2, extracts whereof are reproduced below:

#### **7.1. Misuse of clients' funds and securities**

- 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/10605 dated April 21, 2008

*Brokers should have adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client's margin requirements / pay-ins. Brokers should also maintain records to ensure proper audit trail of use of client collateral.*

c. 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 and securities payable to the client at all times.*

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

3.3 *Based on the aforesaid information submitted by the stockbroker, Stock Exchanges shall put in place a mechanism for monitoring of clients' funds lying with the stockbrokers on the principles enumerated below:*

3.3.1. *Funds of credit balance clients used for settlement obligation of debit balance clients or for 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)*

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

3.3.3. *Funds of credit balance clients used for margin obligations of debit balance clients and proprietary trading:*

*Principle*

*The clients' funds lying with the clearing corporation/clearing member should be less than or equal to the sum of credit clients' margin obligations (MC) and free collateral deposits available with the clearing corporation/clearing member (MF)*

$$J = (C-A)-(MC+MF)$$

7.2. **Non-reconciliation of securities recorded in the back-office vis-à-vis securities available in the beneficiary accounts**

- 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.*

7.3. **Non-settlement of clients' funds and securities**

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

*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

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

7.4. **Discrepancies in the client-wise back-office holdings/non-maintenance of the register of securities in the prescribed standard format**

- a. Exchange circular no. NSE/INSP/38743 dated August 30, 2018

*In order to standardize the maintenance of books of accounts / records and to ensure uniformity across all Members, a standard format for register of securities, holding statement, bank book and client ledger is prescribed herewith.*

*The revised formats shall be applicable w.e.f. December 01, 2018. Members are advised to make necessary changes in their back office in order to comply with requirements.*

*Members may further note that 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.*

**7.5. Incorrect data in the weekly submissions towards monitoring of clients' funds**

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

3.2. *Stockbrokers shall submit the following data as on the last trading day of every week to the Stock Exchanges on or before the next trading day:*

*A-Aggregate of fund balances available in all client bank accounts, including the settlement account, maintained by the stock broker across stock exchanges*

*B-Aggregate value of collateral deposited with clearing corporations and/or clearing member (in cases where the trades are settled through clearing member) in form of cash and cash equivalents (fixed deposit (FD), bank guarantee (BG), etc.) (across stock exchanges). Only funded portion of the BG, i. e. the amount deposited by stock broker with the bank to obtain the BG, shall be considered as part of B*

*C-Aggregate value of credit balances of all clients as obtained from trial balance across stock exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations)*

*D-Aggregate value of debit balances of all clients as obtained from trial balance across stock exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients, uncleared cheques issued to clients and the margin obligations)*

*MC-Aggregate value of Margin utilized for positions of credit balance clients across stock exchanges*

*MF-Aggregate value of unutilized collateral lying with the clearing corporations and/or clearing member across stock exchanges*

**7.6. Shortfall in net worth****a. Rule 33 of Chapter III of the Rules of the Exchange**

*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.*

**b. Schedule VI of Securities and Exchange Board of India (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2013**

*The stock broker shall have a net-worth and shall deposit with the stock exchange a sum as may be specified by the Board/ Stock Exchange for the relevant segment from time to time.*

*For the purposes of this Schedule, 'net worth' shall mean paid up capital, free reserves and other securities approved by the Board from time to time but shall not include fixed assets, pledged securities, value of member's card, non-allowable securities (unlisted securities), bad deliveries, doubtful debts and advances (debts or advances overdue for more than three months or debts or advances given to the associate persons of the member), prepaid expenses, losses, intangible assets and 30% value of marketable securities*

**7.7. Misrepresentation of books of account****a. 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.*

**CONSIDERATION AND FINDINGS**

8. The observations/violations, the reply of the Noticee to SCN-2, and the findings of the Committee are as under:

**SCN-1****8.1. Misuse of clients' funds and securities****8.1.1. Shortfall of clients' funds**

On scrutinizing the trial balance, bank balances, and deposits available with the Clearing Member, Exchange and Clearing Corporation, the Exchange observed that the total client payables amounted to Rs.3.96 crores whereas the total funds available with the Noticee amounted to Rs.2.82 crores, thereby resulting in a shortfall of clients' funds amounting to Rs.1.14 crores as of July 17, 2020.

**8.1.2. Shortfall of clients' securities**

On verification of the securities recorded in the back-office holding vis-à-vis the securities available in the beneficiary accounts maintained by the Noticee and securities deposited with Clearing Member/Clearing Corporation, the Exchange observed that out of securities worth Rs.21.77 crores recorded in the back-office holding, securities worth Rs.5 crores were not available with the Noticee as of July 17, 2020. Out of the shortfall of securities worth Rs.5 crores, securities worth Rs.2.38 crores pertain to clients.

**8.1.3. Securities of one client used to meeting the other clients' obligations**

On scrutinizing the pay-in and pay-out obligation of the clients, the Exchange observed that the Noticee used the securities of one client to meet the obligations of other clients in 55 out of 107 instances involving Rs.3.22 crores.

**8.1.4. Funds of credit balance clients used to meet the margin obligations of debit balance clients and proprietary trading**

On scrutinizing the margin obligation of clients, the Exchange observed that the Noticee used the funds of credit balance clients to meet the margin obligations of the debit balance clients amounting to Rs.1.01 crores of July 17, 2020.

**SCN-2****8.2. Misuse of clients' funds and securities****8.2.1. Shortfall of clients' securities**

On scrutinizing the reconstructed register of securities and demat account statements of CDSL and NSDL, it is observed that the total value of securities belonging to the non-related clients is Rs.19.63 crores whereas the total value of securities available with the Depositories and Clearing Member is Rs.5.80 crores thereby resulting in a shortfall of clients' securities valuing Rs.13.83 crores as of March 31, 2021.

**8.2.2. Shortfall of clients' funds**

On scrutinizing the reconstructed financial ledgers of clients, it is observed that the total amount payable to non-related clients is Rs.15.36 crores whereas the total available balance (Bank/Clearing Member/Exchange/Clearing Corporation) is Rs.1.71 crores thereby resulting in a shortfall of clients' funds to the extent of Rs.13.65 crores as of March 31, 2021.

**8.2.3. In reply to the SCN-2, the Noticee submitted as under:**

- a. There was a back-office server crash during the Covid-19 pandemic period. Due to the ongoing lockdown, there was no movements of the vendors, back-office staff, and designated directors. Therefore, the Noticee was unable to fix the problems in the back-office software. Further, the old back-up data could not be restored since it was kept at remote locations which could not be accessed.
- b. The Noticee was in the process of reconciling its data by uploading the files, collecting the data from various external sources, and recreating the register of securities and trading ledgers. Therefore, it could not provide the requisite data to the Exchange in time.
- c. The Noticee is facing severe financial crisis as it is unable to recover the losses caused by one of its dealers in proprietary account. Therefore, the Noticee utilized its own funds as well the clients' funds to meet its obligations towards the Exchange.
- d. The Noticee secured a no objection certificate for full and final settlement of funds and securities from 818 out of 1,728 clients having outstanding liability of Rs.32.64 crores. Out of the total liability, securities worth Rs.66.01 lakhs and fund amounting to approx. Rs.45.93 lakhs are lying in the collateral accounts which are freezed by the Exchange.

- e. Out of the remaining 910 clients from whom no objection certificates are not furnished to the Exchange -
  - i. 702 clients have either 'NIL' or debit balance, and some of the accounts are not client accounts.
  - ii. In the case of 208 client accounts (gross liability of approx. Rs.58 lakhs including securities liability approx. Rs.39 lakhs), the Noticee had to pay approx. Rs.39 lakhs in funds and securities. The Noticee is in the process of obtaining no objection certificate for full and final settlement from these clients after releasing/defreezing the Noticee's collateral/CUSA.
  - iii. Out of the securities liability of Rs.39 lakhs pertaining to 208 clients, the securities liability of Rs.33 lakhs pertains to 144 clients whose demat account details are not available or the shares are either suspended or unlisted. Hence, these shares could not be transferred to the clients' account.
  - iv. As on date, the total valuation of securities lying in these accounts are Rs.3.15 crores and funds available with the Exchange is Rs.1.71 crores.
- f. The Noticee resolved 15 complaints received and there are no pending complaints to date.
- g. The holdings of many clients were lying in the collateral account with Globe Capital Market Ltd. and other demat accounts which were frozen as per Exchange's instructions. The Noticee requested the Exchange to unfreeze the said demat accounts and transfer the securities directly to the clients' accounts. The Exchange can monitor the transfer of securities to clients' accounts and settle the client grievances.

8.2.4. The Committee finds as under:

- a. The Noticee attributed the observation/violation to various reasons such as back-office server crash, loss in the proprietary account, shares lying in the accounts frozen by the Exchange etc.
- b. The status of availability of securities is as under:

| Particulars   | Amount<br>(Rs. in crores) | Amount<br>(Rs. in crores) |
|---|---------------------------|---------------------------|
| Securities payable to non-related clients as of March 31, 2021 (as per SCN-2)                               | 19.63                     |                           |
| Revised securities liability after considering the settlement letters received from non-related clients (A) |                           | 5.70                      |
| Securities distributed to non-related clients (B)   |                           | 3.31                      |
| Shortfall of clients' securities [C = (A) – (B)]  |                           | 2.39                      |
| Excess securities available   |                           | 2.49                      |

c. The status of availability of funds is as under:

| Particulars  | Amount<br>(Rs. in crores) | Amount<br>(Rs. in crores) |
|--|---------------------------|---------------------------|
| Funds payable to non-related clients as of March 31, 2021 (as per SCN-2)   | 15.43                     |                           |
| Revised fund liability after considering settlement letters from non-related clients (A)                                       |                           | 0.66                      |
| Funds distributed to non-related clients (B)   |                           | 0.62                      |
| Funds that could not be distributed to non-related clients due to insufficient bank information of the clients [C = (A) – (B)] |                           | 0.04                      |
| Funds available before distribution (D)  |                           | 1.81                      |
| Excess funds available [E = (D) – (A)]   |                           | 1.15                      |

d. The Noticee misused the clients' funds and securities to the extent of Rs.13.83 crores and Rs.13.64 crores, respectively, as of March 31, 2021. Post-inspection, the Noticee provided the settlement letters received from the clients to the Exchange. There is excess of funds available with the Noticee to the extent of Rs.1.15 cores and shortfall of clients' securities to the extent of Rs.2.39 crores. Post-inspection steps taken by

the Noticee to settle the clients' accounts does not absolve the Noticee from the violation committed.

- e. The Noticee misused the clients' funds and securities and therefore violated the provisions of Regulation 4.5.3 (e) of the NSEIL Regulations (CM and F&O Segments), Exchange Circular No. NSE/INSP/10605 dated April 21, 2008, Exchange Circular No. NSE/INSP/29096 dated March 11, 2015, and Exchange Circular No. NSE/INSP/33276 dated September 27, 2016.
- f. The Noticee is a repeat violator. The Committee levied a monetary penalty of Rs.1 lakh for the violation pertaining to use of funds of credit balance clients for margin obligations of debit balance clients and proprietary trading observed during the regular inspection conducted by the Exchange in the Financial Year 2019-20.
- g. As per Exchange Circular No. NSE/INSP/36248 dated November 6, 2017, the prescribed penalty is Rs.1 lakh or 1% of the amount involved whichever is higher. In case of repeat violation, the escalated penalty @ 50% is applicable.
- h. The total misuse, including funds and securities, is Rs.27.47 crores as of March 31, 2021 (misuse of clients' securities = Rs.13.83 crores and misuse of clients' funds = Rs.13.64 crores). Therefore, the prescribed penalty is Rs.41.20 lakhs [Rs.27.47 lakhs (prescribed penalty) plus Rs.13.73 lakhs (escalated penalty @ 50%)].

8.2.5. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.41.20 lakhs for the observed violation in terms of Exchange Circular No. NSE/INSP/36248 dated November 6, 2017.

### **SCN-1**

#### **8.3. Non-reconciliation of clients' securities**

- 8.3.1 On verification of the securities recorded in the back-office holding vis-à-vis the securities available in the beneficiary accounts maintained by the Noticee and securities deposited with the Clearing Member/Clearing Corporation as of July 17, 2020, it is observed that out of securities worth Rs.21.77 crores recorded in the back-office holding, securities worth Rs.5 crores were not available with the Noticee as of July 17, 2020. Further, the Noticee did not reconcile the securities recorded in the back-office holding vis-à-vis the securities available in the beneficiary accounts maintained by the Noticee.

8.3.2 The Committee finds as under:

- a. The Noticee failed to submit its reply to the observation/violation. In absence of a reply from the Noticee, the violation persists.
- b. The Noticee failed to reconcile the securities and therefore violated the provisions of Exchange Circular No. NSE/INSP/10605 and No. NSE/INSP/29096 dated April 21, 2008, and March 11, 2015.

8.3.3 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/36248 dated November 6, 2017.

### **SCN-1**

#### **8.4. Non-settlement of clients' funds and securities**

8.4.1 On scrutiny of the trial balance and register of securities as of July 17, 2020, it is observed that the Noticee failed to settle the funds and securities of 461 out of 2013 inactive clients involving Rs.2.50 crores (22.90% of the total sample instances).

8.4.2 The Committee finds as under:

- a. The Noticee failed to submit its reply to the observation/violation. In absence of a reply from the Noticee, the violation persists.
- b. The Noticee failed to settle the funds and securities of inactive clients and therefore violated the provisions of Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, and Exchange Circular No. NSE/INSP/33276 dated September 27, 2016.
- c. The Noticee is a repeat violator. The Committee levied a monetary penalty for the violation observed during the regular inspection conducted by the Exchange in the financial years 2017-18 and 2019-20.

8.4.3 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.1,12,500/- [Rs. 75,000/- (prescribed penalty) plus Rs.37,500/- (escalated penalty @ 50%)] in terms of Exchange Circular No. NSE/INSP/36248 dated November 6, 2017.

**SCN-1****8.5. Observations pertaining to back-office records****8.5.1. Discrepancies in holdings as per back-office**

On scrutiny of the back-office client-wise holding as of July 17, 2020, it is observed that securities worth Rs.5.96 crores of 308 clients appeared negative in the back-office client-wise holdings.

**8.5.2. Non-maintenance of the register of securities in the prescribed standard format and non-entry of the trades in the register of securities**

On scrutiny of the register of securities, it is observed that the Noticee failed to maintain the register of securities in the prescribed standard format. Further, on verifying the register of securities with the trade data of the Exchange, it is observed that the Noticee had not passed the entries in the register of securities of the trades carried out in proprietary code and client code amounting to Rs. 2.44 crores.

**SCN-2****8.6. Observations pertaining to back-office records****8.6.1. Non-maintenance of books of accounts in the prescribed format**

On scrutiny of the register of securities provided by the Noticee, it is observed that the Noticee did not maintain the register of securities in prescribed format, i.e. prescribed column / information were not available in the register of securities.

8.6.2. In reply to the SCN-2, the Noticee submitted that the books are maintained in the prescribed format; however, due to back-office software crash, COVID-19 pandemic, and consequential lockdown, it could not restore the books of accounts.

8.6.3. The Committee finds as under:

- a. The Noticee failed to submit its reply to the observation/violation mentioned in SCN-1.

- b. The Noticee attributed the observation/violation mentioned in SCN-2 to the back-office software crash, COVID-19 pandemic, and consequential lockdown.
- c. The Noticee failed to maintain the back-office records and therefore violated the provisions of Exchange Circular No. NSE/INSP/38743 dated August 30, 2018.

8.6.4. Given the findings mentioned above, the Committee decided to levy a combined monetary penalty of Rs.25,000/- for the observed violations in terms of Exchange Circular No. NSE/INSP/36248 dated November 6, 2017.

### **SCN-1**

#### **8.7. Incorrect reporting of data in the weekly monitoring of clients' funds**

8.7.1. On comparison of the weekly enhanced supervision data submitted by the Noticee as of July 17, 2020, with the actual data collected from the Noticee, it is observed that the Noticee submitted incorrect data to the Exchange.

8.7.2. The Committee finds as under:

- a. The Noticee failed to submit its reply to the observation/violation. In absence of a reply from the Noticee, the violation persists.
- b. The Noticee reported incorrect data to the Exchange under the Enhanced Supervision of Stockbrokers and therefore violated the provisions of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016.

8.7.3. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.25,000/- in terms of Exchange Circular No. NSE/INSP/36248 dated November 6, 2017.

### **SCN-2**

#### **8.8. Shortfall of net worth**

8.8.1 On scrutiny of the Noticee's unaudited books of accounts, the Noticee's net worth was Rs.0.57 crores as of March 31, 2021, after considering the effect of adjustments made in proprietary account balances at the end of the previous financial year.

- 8.8.2 In reply to the SCN-2, the Noticee submitted that its trading facility was withdrawn by the Exchange from January 4, 2021. This resulted into erosion of net worth. The Noticee applied for surrender of its trading membership to the Exchange.
- 8.8.3 The Committee finds as under:
- a. The Noticee attributed the net worth shortfall to withdrawal of its trading facility by the Exchange.
  - b. The Noticee's net worth is below the minimum net worth prescribed by the Exchange as of March 31, 2021, and therefore the Noticee violated the provisions of Rule 33 of Chapter III of NSEIL Rules.
  - c. The Exchange shall process the application for surrender only after the Noticee pays the monetary penalty and settles all its dues.
- 8.8.4 Given the findings mentioned above, the Committee directed the Noticee to recoup the shortfall in net worth within 2 months and submit the net worth certificate duly certified by a Chartered Accountant to the Exchange, failing which the trading terminals shall continue to remain disabled.

## **SCN-2**

### **8.9. Misrepresentation of books of account**

#### **8.9.1. Misrepresentation of transactions in ledgers**

Upon scrutiny of the F&O trade transactions of selected clients recorded in the client financial ledger in the Noticee's books vis-à-vis the F&O trade data received from the Exchange; it is observed that all the F&O trade transactions were not recorded / posted in the client financial ledgers. There is a variance of Rs.6.72 crores in the profit and loss booked in the client financial ledgers.

Furthermore, on detailed analysis of sample F&O trade transactions, it is observed that the transactions are reflected in the respective client codes in the F&O trade files of the Exchange. However, the same transactions are recorded in the proprietary code, i.e. C-1982 in the Noticee's back-office (i.e. the Noticee modified the trade transaction at the back-office).

### 8.9.2. Misrepresentation in the audited financial statement

Upon review of the audited trial balance vis-à-vis the trial balance provided by the Noticee, variances of Rs.1.85 crores and Rs.2.91 crores were noted in the financial years 2018-19 and 2019-20, respectively.

Upon detailed review of the variances, it is observed that certain balances in sundry debtors and creditors ledgers were adjusted with the ledger "C8035-Century Finvest" (proprietary account of the Noticee) as of March 31, 2019, and March 31, 2020. The adjusted sundry debtors and creditors balances were reversed by passing a journal voucher on April 1, 2019, and April 1, 2020, respectively.

Upon detailed review of the ledger of "C8035-Century Finvest", shortfall of Rs.0.09 crore and Rs.1.58 crores were observed in the opening balance for the financial years 2019-20 and 2020-21, respectively:

It appeared that the Noticee understated the balances in sundry debtors and creditors by adjusting their balances with its proprietary account balances at the end of the respective financial year to maintain its profitability and net worth. Further, the adjustments of sundry debtors and creditors balance with the proprietary account balances is in non-compliance to generally accepted accounting principles which amounts to misrepresentation in the audited financial statements.

### 8.9.3. Adjustment of cash balances

The Noticee is maintaining a separate cash ledger "ZCASB5-Cash Book" in its books of account where the Noticee transferred the total cash of Rs.0.34 crore withdrawn from the bank to "C8035-Century Finvest" (proprietary account) ledger account at the end of the financial years 2018-19 and 2019-20 to adjust the cash in hand balance. The cash withdrawn amount was sourced from funds received from clients, loan against security, non-related parties, and settlement obligations of clients.

### 8.9.4. Mismatch in bank books vis-à-vis bank statements (receipt & payment not from respective clients/not recorded in particular party account)

Upon mapping the bank statements with the bank books of the Noticee, mismatches were observed in receipt / payment transactions. Upon analysis of the reason of mismatch, it is observed that receipt / payment from / to third party as per the bank statements was recorded in the client ledger instead of being recorded in the ledger of third party. Further, it is observed that receipt / payment from / to client as per the bank statements was recorded in another client ledger.

However, this was not recorded in the ledger of the third party / particular client. The Noticee received the funds from different parties and credited the funds to client ledgers instead of recording the same in the respective parties' ledger. Also, the funds received from one client was credited in another client ledger.

8.9.5. In reply to the SCN-2, the Noticee reiterated its submissions as mentioned in paragraph 8.2.3.

8.9.6. The Committee finds as under:

- a. The Noticee attributed the observation/violation to back-office software crash, failure to recover the back-up data, COVID-19 pandemic, and consequential lockdown.
- b. The Noticee misrepresented the books of accounts. As per Rule 17 of Chapter III of NSEIL Rules, the Relevant Authority may cancel the admission and expel a Trading Member if it made any wilful misrepresentation, suppressed any material information, etc. Thus, the Noticee violated the provisions of Rule 17 of Chapter III of NSEIL Rules. However, the Committee noted that the Noticee took efforts to settle the clients' dues, provided settlement letters from the clients, and there are no pending investor complaints against the Noticee.

8.9.7. Exchange Circular No. NSE/INSP/36248 dated November 6, 2017, provides for the applicable penalty to be levied in respect of various violations identified during the inspection of Trading Members. This circular *inter alia* states that the penalties/disciplinary actions/charges are indicative in nature and could undergo change in specific cases depending on the frequency and gravity of the violations. The Committee observed that the said penalty structure prescribes *inter alia* suspension in case of serious violations. The violations observed in the instant case are grave as clients' assets were misused by the Noticee. Therefore, the Committee finds it necessary to initiate suitable disciplinary action which would act as a deterrent in addition to monetary penalty.

8.9.8. Given the findings above, the Committee decided to suspend the trading membership of the Noticee for a period of six months.

### **DECISION**

9. 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/36248 dated November 6, 2017                        | Penalty   |
|---------|---|--|---|
| a       | The Noticee misused the clients' funds and securities totally amounting to Rs.27.47 crores as of March 31, 2021.  | Rs.1 lakh or 1% of the amount involved whichever is higher plus escalated penalty @ 50% for repeat violation | Rs.41,20,000/-  |
| b       | The Noticee failed to reconcile the securities recorded in the register of securities vis-à-vis the securities available in the beneficiary accounts            | Rs. 25,000/-   | Rs.25,000/-   |
| c       | The Noticee failed to settle the funds and securities of 461 out of 2013 inactive clients involving Rs.2.50 crores (22.90% of total sample instances verified). | In excess of 10% of number of instances – Rs. 75,000/- and escalated penalty @ 50% for repeat violation      | Rs.1,12,500/-   |
| d       | The Noticee had discrepancies in the holding as per back-office   | Rs. 25,000/-   | Rs.25,000/-   |
| e       | The Noticee failed to maintain the register of securities in the prescribed format  |  |   |
| f       | The Noticee failed to maintain the books of accounts in the prescribed format   |  |   |
| g       | The Noticee submitted incorrect data for weekly monitoring of clients' funds  | Warning to Rs.1,00,000/-   | Rs.25,000/-   |
| h       | The Noticee had a shortfall in net worth.   | No prescribed penalty  | Direction to recoup the shortfall in net worth within 2 |

| Sr. No.      | Committee's Findings   | Prescribed penalty as per Exchange Circular No. NSE/INSP/36248 dated November 6, 2017 | Penalty  |
|--------------|--|---|--|
|              |  |   | months and submit a net worth certificate duly certified by a Chartered Accountant |
| i            | The Noticee misrepresented the transactions in the clients' ledgers, audit financial statements etc. | No prescribed penalty   | Suspension for a period of six months  |
| <b>Total</b> |  |   | <b>Rs.43,07,500/-</b>  |

10. The Committee directed as under:

- a. The Noticee shall pay a monetary penalty of Rs.43,07,500/- (Rupees Forty-Three Lakhs Seven Thousand Five Hundred only) as indicated above.
- b. The trading membership of the Noticee shall be suspended for a period of six months from the date of this order.
- c. The Noticee shall recoup the shortfall in net worth within 2 months from the date of the order and submit the net worth certificate duly certified by a Chartered Accountant to the Exchange, failing which the trading terminals shall continue to remain disabled.

Sd/-  
**Mona Bhide**  
 (Chairperson)

Sd/-  
**K Narasimha Murthy**  
 (Committee Member)

Sd/-  
**Ranganayakulu Jagarlamudi**  
 (Committee Member)

Sd/-  
**Ashishkumar Chauhan**  
 (Committee Member)

Date: January 25, 2023