

**Member and Core Settlement Guarantee Fund Committee  
("MCSGFC"/"Committee")  
of  
National Stock Exchange of India Limited  
Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051  
held on May 23, 2023**

**In the matter of the Trading Member M/s LSC Securities 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 Janardhan Gujran	- Vice President – Enforcement
Mr Shailesh Adukia	- Vice President – Enforcement

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**BACKGROUND**

1. **M/s LSC Securities 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 December 2000, Futures and Options ("**F&O**") segment since February 2002, and Currency Derivatives ("**CD**") segment since March 2009.
2. The Exchange conducted a comprehensive inspection of the Noticee's books and records covering the period April 1, 2021, to November 30, 2022, in January 2023. Post-inspection, the Exchange issued a show-cause notice dated March 3, 2023, for the observed non-compliance with the regulatory provisions ("**SCN**"). The Noticee, vide letter dated March 27, 2023, and May 24, 2023, replied to the SCN.

**INSPECTION OBSERVATIONS/VIOLATIONS**

3. The observations/violations alleged in the SCN are summarized hereunder:
  - 3.1 Providing/offering fixed/ assured periodic fixed payments to the clients directly and/or through an Authorized Person ("**AP**").

**REGULATORY PROVISIONS**

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

4.1 Providing/offering fixed/ assured periodic fixed payments to the clients directly and/or through AP

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

(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. Exchange Circular No. NSE/COMP/48536 dated June 09, 2021

*Member's attention is drawn to SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009, Market Access through Authorised Persons, wherein the framework governing the market access through Authorised persons (AP) was introduced.*

*An Authorised Person is a person/entity who, as an agent of a Member, provides access to the clients of the Member to trading platform of a stock exchange. While doing so, the Authorised Person is prohibited from:*

1. ...
2. *Employing any device, scheme or artifice or engage in any act or practice, including operating assured schemes, unauthorised portfolio management & investment schemes etc., in contravention of the provisions of various SEBI/Exchange Rules & Regulation and circulars issued from time to time.*

*Members are required to exercise adequate control and due diligence over the activities & transactions of their Authorised persons.*

*Members should ensure that their Authorised Persons are engaging only in permitted activities and are not undertaking any business which are disallowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges including operating any schemes of unauthorised collective investments/portfolio management, promising indicative/ guaranteed/fixed returns etc. It is, hereby, reiterated that all the acts of omission and commission of the Authorized person and/or their Directors/Partners,*

*employees etc., shall be deemed to be those of the Member and the Member shall be responsible for all such acts of its Authorised person(s) and/or their Directors/Partners, employees etc., including liabilities arising there from.*

c. Exchange Circular No. NSE/COMP/50957 dated January 7, 2022

*It is observed that members are engaged in businesses other than securities or commodity derivatives business like entering loan arrangement with clients/entities, collecting money in the form of deposit or otherwise by offering fixed/guaranteed/periodic returns orally or in writing, extending corporate guarantees etc. which is in contravention of Rule 8(3)(f) of SCRR.*

*In consultation with SEBI and other Stock Exchanges, the illustrative list of activities that are construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR, if undertaken by a member, are provided as below.*

5. *Engaging into activities/schemes of unauthorised collective investments/portfolio management, promising or indicating fixed/guaranteed/regular returns/capital protection.*

d. Exchange Circular No. NSE/INSP/51770 dated March 25, 2022

*Members' attention is drawn to Exchange circular NSE/INSP/49434 dated August 27, 2021, wherein it was reiterated that members are not permitted to undertake any business/activity that is not allowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges.*

*However, despite various guidelines/ clarifications issued by the Exchange from time to time, certain practices followed by members are not in compliance with the relevant guidelines issued by the Exchange.*

*Below are some of the market practices, that have come to the notice of the Exchange and members are advised to refrain from engaging in such practices.*

- e. *Assured Return Schemes / Unauthorised Portfolio Management Service: It has also come to the notice of the Exchange that certain members were engaging in activities/schemes of fixed / periodic payments, which are not permitted under the Byelaws, Rules & Regulations, and circulars of SEBI/Exchanges. It is reiterated that members are not permitted to undertake any business/activity that is not allowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges including operating any schemes of unauthorised collective investments/portfolio management, promising indicative/guaranteed/fixed returns/payments etc.*

**PRESENT PROCEEDINGS BEFORE MCSGFC**

6. The Exchange, vide its email dated May 18, 2023, granted the Noticee with an opportunity for a personal hearing before the Committee. On behalf of the Noticee, Mr. Rakesh Gupta - Director, Mr. Ashwani Kumar Aggarwal - Director, Mr. Manjeet Singh Lotey - Chief Executive Officer, and Mr. Sumit Malhotra - Compliance Officer, appeared before the Committee and re-iterated its written submissions.

**CONSIDERATION AND FINDINGS**

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

- 7.1 Providing/offering fixed/ assured periodic fixed payments to the clients directly and/or through its AP

7.1.1 Upon verification of client ledgers of the Noticee, the Exchange observed certain trends/patterns in the funds' pay-outs given to the clients at periodic intervals offering returns to the clients in the nature of fixed returns. It was observed that fund pay-outs were made in the case of 971 instances, pertaining to 71 clients involving Rs.13.14 crores, wherein similar fund pay-outs were made for more than 6 times.

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

- a. Noticee and/or its APs are not providing/offering returns to the clients in the nature of fixed returns at periodical intervals. There is not even a single instance where payment has been made to clients having insufficient and/or negative balances. The Noticee is not doing proprietary trading and profit maximization is not an objective of the Noticee.
- b. The Noticee provided a certificate from a Chartered Accountant, M/s. K C Khanna & Co., certifying that no fixed return is being paid to any client.
- c. The client has the right to get the funds released after meeting the margin requirement, if any, to the extent of the amount available (or credit balance) in the client's account.
- d. No fixed return is paid/assured as the closing balance after every transaction is strictly in accordance with the transactions.
- e. Upon verification of the statement of accounts / financial ledgers of the clients, it can be observed that neither there is a fixed pattern of the

client payout nor client payout is made at a periodical / fixed interval. The Noticee provided the financial ledgers of the clients to support its claim.

- f. The AP introduces the client to the Noticee. Then the Noticee executes a KYC agreement with the said client. The KYC agreement indicates the Rights and Obligations of Stockbrokers, APs and clients as prescribed by SEBI. AP is not allowed to make any alteration to the KYC agreement or to enter into any other agreement with the clients. The Noticee has control over its APs. The quarterly inspections of the APs are conducted in a very strict manner.
- g. The 971 instances pertaining to 71 clients constitute approximately 0.5% of the total active clients. In the case of Ms Priya Shyam Sharma, the client had a positive end-of-day balance ranging from Rs. 8.65 lakhs to Rs. 1.85 lakhs. The payout of Rs. 45,000/- is made while having a credit balance in her account, and such payout is not in the shape of a fixed return. Payment in all the instances was made after considering the client ledger balance and adjusting the margin and other requirements of the Exchange.
- h. The client has not withdrawn any amount from February 2022 to April 2022, which shows that the client payout is neither in a fixed pattern nor at a fixed / periodic interval. It may be the practice of the client to withdraw a certain amount of available funds weekly, fortnightly, or monthly basis. The Noticee provided the details of withdrawals by Ms. Bhupinder Kaur and Mr. Sudhir Kumar Goyal, indicating different numbers of withdrawal transactions in different months. Further, the clients are not only withdrawing funds from the account but are also depositing funds as may be required in the account, indicating that there is no fixed return provided to the clients.
- i. The client can withdraw any amount subject to fulfilment of margin obligation, if any, and the Trading Member cannot stop the payout up to the extent of credit balance lying in the statement of account / financial ledgers of the client. All the 71 clients observed are having credit balances in the ledgers. The Noticee/AP has not transferred any amount to the client's accounts.
- j. As per SEBI Circular on settlement of running account of client's funds lying with Trading Member, dated July 27, 2022, the client account is required to be settled by the Trading Member depending on the mandate of the client and there must be a gap of maximum 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two settlements of running account. As per the said circular, the clients get settled on a monthly/quarterly basis as per the mandate given by the clients. The

aforesaid settlement provision prohibits offering/providing a fixed return to the clients.

7.1.3 The Committee finds as under:

- a. The Noticee contended that the client has the right to get the funds released after meeting the margin requirement, if any, and the Noticee cannot stop the funds' payouts. However, the Noticee failed to submit the retention statements and/or any other document/s to substantiate its contention. Thus, in the absence of any supporting documents the contention of the Noticee is not tenable.
- b. The Noticee further contended that the clients may have a practice of withdrawing a certain amount every month out of the credit balance. However, in case the funds' payouts were made at the request of clients, the Noticee failed to submit the evidence of such request received from the clients, which could be inert alia in the form of writing, telephone recording, email from registered mail id, record of messages through registered mobile phones, log for internet requests. Thus, in the absence of any supporting documents the contention of the Noticee is not tenable.
- c. The Noticee contended that SEBI circular on settlement of clients' accounts mandates monthly/quarterly settlement of the account and the Noticee adheres to the said circular. However, the Noticee failed to provide an instance-wise reply on whether the part/periodic funds' payouts made by the Noticee are commensurate with the running account settlement guidelines. Thus, in the absence of any supporting documents the contention of the Noticee is not tenable.
- d. The Noticee provided a certificate from a Chartered Accountant, M/s. K C Khanna & Co., certifying that no fixed return is being paid to any client. The Committee notes that the certificate from Chartered Accountant is based upon verification of financial ledgers of the clients and information/explanation provided by the Noticee. However, the certificate is silent on the reason for the retention of clients' funds and/or verification of funds' pay-out requests received from the clients. Thus, in the absence of any supporting documents from the chartered accountant and/or a complete report, the same is not acceptable.
- e. The Noticee contended that upon verification of the clients' ledgers, it can be observed that there is no fixed / periodic payout made to the clients and provided the financial ledger of Ms. Priya Shyam Sharma (Client Code: - SPTPSS) on a sample basis indicating that the payout is not in the shape of fixed return. The Noticee contended that Ms. Priya has not withdrawn any amount from February 2022 to April 2022. Thus, the payout is neither in a fixed pattern nor at a fixed interval. The Noticee

further claimed that it may be the practice of the client to withdraw a certain amount of available funds weekly, fortnightly, or monthly basis. The Exchange verified pay-outs to Ms. Priya on a sample basis. The Committee notes that post-analysis of the financial ledger of Ms. Priya, it is observed that the actual end-of-day payable balances are in the range of Rs.1.85 lakhs to Rs.8.65 lakhs, against the fixed periodic funds' payout of Rs.0.45 lakh.

The extract of the financial ledger summary of Ms. Priya is as under:

Unique Client Code	Client Name	Date	Debit (Rs.)	Closing Balance (Rs.)
SPTPSS	Priya Shyam Sharma	01-09-2021	45,000	8,08,630.56
SPTPSS	Priya Shyam Sharma	01-10-2021	45,000	8,64,929.37
SPTPSS	Priya Shyam Sharma	01-11-2021	45,000	6,99,449.38
SPTPSS	Priya Shyam Sharma	03-01-2022	45,000	6,38,133.90
SPTPSS	Priya Shyam Sharma	02-05-2022	45,000	5,78,596.04
SPTPSS	Priya Shyam Sharma	01-06-2022	45,000	2,94,452.38
SPTPSS	Priya Shyam Sharma	01-07-2022	45,000	6,04,203.41
SPTPSS	Priya Shyam Sharma	01-08-2022	45,000	4,47,746.46
SPTPSS	Priya Shyam Sharma	01-11-2022	45,000	1,84,642.21

Thus, it is evident from the financial ledger summary of Ms. Priya, that a fixed payout of Rs.45,000/- was made in the first week of the month. The Noticee neither provided any reason for a fixed payout of funds to the said client nor provided the documents/communication received from the client requesting a payout of Rs.45,000/- for the observed instances. Further, upon analysis of the trade data of Ms. Priya, it is observed that the Noticee made periodic fixed funds payouts on 9 occasions even after the client suffered a loss of Rs.4.88 lakhs. The Noticee has not filed any reply to the said observation. Hence, the contention of the Noticee is not tenable.

- f. The Committee notes that out of the 71 clients, 70 clients are mapped to 33 APs.
- g. SEBI has put in place a framework for Market Access through APs pursuant to the recommendations made by the Secondary Market Advisory Committee of SEBI. The said framework is notified by SEBI vide its circular No. MIRSD/ DR-1/ Cir- 16 /09 dated November 06, 2009. The said framework casts a regulatory obligation on the Trading Members, and the Trading Member shall be responsible for all acts of omission and commission of its Authorized Person(s) and/or employees,

including liabilities arising therefrom. The same is reproduced hereinbelow:

*7. Obligations of Stock Broker*

- a) *The stock broker shall be responsible for all acts of omission and commission of his authorised person(s) and/or their employees, including liabilities arising there from.*
- g) *On noticing irregularities, if any, in the operations of authorised person, stock broker shall seek withdrawal of approval, withhold all moneys due to authorised person till resolution of investor problems, alert investors in the location where authorised person operates, file a complaint with the police, and take all measures required to protect the interest of investors and market.*
- h. The Committee notes that all the clients, even though referred through its APs, are registered as clients with the Noticee. Thus, the Noticee holds accountability towards all the clients registered with the APs and is fully liable for the acts of its APs. By failing to exercise adequate control over the activities of its APs, the Noticee has failed to discharge the said duty towards the clients and has grossly failed in the conduct of its business. The actions of Noticee and its APs have raised an immense risk to the existing investors. The same reflects that the activities of Noticee are not within the ambit of the regulatory provisions.
- i. The observed violation conclusively demonstrates the Noticee's failure in internal control and governance mechanisms. The Committee notes that the conduct of the Noticee by allowing a misleading practice of offering assured/fixed returns to innocent clients undermines the integrity of the financial market and jeopardizes the interest of the investors. The Committee notes that in the recent past, a few Trading Members had defaulted wherein assured return schemes were offered by Trading Members' colluding with its registered APs resulting in the loss of hard-earned savings for thousands of investors.
- j. The Committee opines that steps need to be taken to protect the interest of the clients/investors and the securities market. The Committee also considers sending a clear message that such violations will not be acceptable by serving as a reminder to the Trading Members of the imperative to adhere to the regulatory provisions and maintain transparency and fairness in their operations.

**DECISION**

8. In view of the above, the Committee decides as under:
- a. The Noticee to stop onboarding new clients and APs for three months from the date of this order.
  - b. The Noticee shall conduct a concurrent audit and submit a fortnightly certificate to certify that the clients of the Noticee are not being offered assured/fixed returns for the next six months from the date of the order.
  - c. The Noticee to submit a declaration from all its active clients as of the date of the order undertaking that the Noticee is not providing any assured / fixed return scheme to the clients directly and/or through its AP within six months from the date of the order.
  - d. The Noticee to issue weekly SMSs and emails to all its registered clients for the next six months from the date of the order stating that it does not offer any assured/fixed return scheme.
  - e. The Noticee to conduct a detailed examination of all its APs, including the activities of directors of its APs, and take immediate actions against them, if required. The Noticee shall report the same to the Exchange within six months from the date of the order.

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: June 21, 2023