

**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 October 31, 2022**

In the matter of the Trading Member M/s. LFS Broking Private Limited

CORAM:

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

ALSO PRESENT:

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

1. M/s. LFS Broking Private Limited ("**Noticee**") is a Trading Member registered with the National Stock Exchange of India Limited ("**NSEIL**"/"**Exchange**") and enabled for trading in the Capital Market ("**CM**"), Futures & Options ("**F&O**") and Currency Derivatives ("**CD**") segments since June 2014.

2. **EXCHANGE INVESTIGATION & FORENSIC AUDIT**

A. **EXCHANGE INVESTIGATION**

2.1. The Exchange received market intelligence that LFS Broking & PMS Services ("**LFS-PMS**") is running a monthly return scheme wherein LFS-PMS is assuring 2% monthly returns for a minimum investment of Rs.25,000/-. Therefore, the Exchange investigated the Noticee to identify the role of management and directors of the Noticee in the said activity.

2.2. The following are the observations of the Exchange:

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

- a. The Exchange observed that cheque No.000001 dated April 15, 2021, for Rs.10 lakhs issued by one Mr Srikant Das in favour of LFS Broking & PMS Services was deposited in A/c. No. 1138102000008907 maintained with IDBI Bank Ltd. Upon verification of the bank statements of A/c. No. 1138102000008907 for the period from April 2, 2021, to June 28, 2022, the Exchange observed as under:
- i. The account is in the name of LFS Broking & PMS Services.
 - ii. The account belongs to Mr. Saiyad Jiyajur Rahaman, Dominant Promoter and Director of the Noticee (PAN: BCNPR5031A).
 - iii. The account is a proprietary account opened on June 13, 2017 and operated by Mr. Saiyad Jiyajur Rahaman.
 - iv. The nature of business mentioned is "Real Estate" in the account opening form and "Building Construction" in the trade license.
 - v. The funds amounting to Rs.626.39 crores and Rs.626 crores were credited and debited, respectively.
- b. Upon verification of the bank statements of A/c. No. 1138102000001649 maintained with IDBI Bank Ltd. for the period from April 3, 2021, to June 28, 2022, the Exchange observed as under:
- i. The account is in the name of MOL Commodities (MOLC).
 - ii. The account belongs to Mr. Saiyad Jiyajur Rahaman (PAN BCNPR5031A).

- iii. The account is a proprietary account opened on November 18, 2013, and is operated by Mr. Saiyad Jiyajur Rahaman.
 - iv. The funds amounting to Rs.190.89 crores and Rs.189.72 crores are credited and debited, respectively.
- c. Upon comparative analysis of the bank statements of A/c. No. 1138102000008907 of LFS-PMS and A/c. No. 1138102000001649 of MOLC maintained with IDBI Bank Ltd. vis-à-vis the UCC database of the Noticee, it is observed that 333 registered clients have credited funds amounting to Rs.2.01 crores to the aforesaid accounts through UPI payments.
- d. Based on the analysis of beneficiary details of transactions in the bank account of LFS Broking & PMS Services bearing A/c. No. 1138102000008907 and MOL Commodities bearing A/c. No. 1138102000001649 vis-à-vis bank account details captured in Unique Client Code records of all clients of the Noticee, it is observed that 6219 registered clients of the Noticee have received funds amounting to Rs.266 crores from the said accounts from April 2, 2021, to June 28, 2022.
- e. As per the records of the Exchange, MOLC is an erstwhile Authorized Person of ITI Securities Broking Ltd. for the period from April 1, 2013, to June 28, 2016. Upon verification of PAN, it is observed that Mr. Saiyad Jiyajur Rahaman was operating as a Partner of MOLC, Proprietor of LFS-PMS and MOLC, and Dominant Promoter and Director of the Noticee.
- f. Upon further examination, it is observed that LFS-PMS and MOLC are operating through multiple bank accounts maintained with Punjab National Bank, HDFC Bank etc.
- g. The Exchange identified multiple bank accounts maintained in the name of LFS-PMS and Mr. Saiyad Jiyajur Rahaman with HDFC Bank. Upon verification of bank statements of A/c. No.59208348789850 of Mr. Saiyad Jiyajur Rahaman maintained with HDFC Bank for the period from April 1, 2021, to June 30, 2022, it is observed as under:

- i. In 8 instances, funds amounting to Rs.9.30 crores were transferred from the account of MOLC maintained with Punjab National Bank to A/c No.59208348789850 of Mr. Saiyad Jiyajur Rahaman maintained with HDFC Bank.
 - ii. In 10 instances, funds amounting to Rs.1.83 crores were transferred from A/c No.59208348789850 of Mr. Saiyad Jiyajur Rahaman maintained with HDFC Bank to A/c No. 03590340000090 of LFS Broking Pvt. Ltd. Proprietary Account maintained with HDFC Bank.
- h. During the period from April 2, 2021, to June 28, 2022, funds amounting to Rs.32.83 crores were transferred from A/c. No. 1138102000008907 of LFS-PMS and A/c. No. 1138102000001649 of MOLC maintained with IDBI Bank to key managerial personnel, shareholders, and other related entities of the Noticee.
- i. Upon carrying out a search for registered portfolio managers on the website of the Securities and Exchange Board of India (SEBI), the Exchange did not find any records in the names of LFS-PMS and MOLC. Therefore, it is evident that LFS-PMS and MOLC are running an unauthorized portfolio management service (PMS).

LFS-PMS, though registered as a material supplier under the Shop and Establishment Act, is running an unauthorized PMS and Mr. Saiyad Jiyajur Rahaman, Dominant Promoter and Director of the Noticee, is actively involved in running the said scheme and he is found to be making personal addresses to general public where he assures returns on investment in stock market.

B. FORENSIC AUDIT

- 2.3. The Exchange received market information that the Noticee is potentially engaged in the business of providing assured returns to its clients. Therefore, the Exchange initiated a forensic audit covering the period from April 1, 2018, to July 7, 2021, to ascertain whether the Noticee is engaged in providing assured returns to its clients, quantum

of funds and securities involved and identifying the role of management and directors of the Noticee in the said activity.

2.4. The following are the forensic audit observations:

2.4.1. **Engagement as a principal in a business other than securities involving personal financial liability**

a. **Pay-outs to the clients having debit balances**

Upon verification of client ledgers, it is observed that the Noticee made pay-outs even to the clients having debit balance the day prior to the fund transfer or the balance turning into a debit balance after the pay-out was made in 7 instances of 6 clients involving Rs.6,63,700/-.

b. **Scheme assuring fixed return to the clients**

Upon perusal of the recording of the telephonic conversation between Mr. Manish Sarwan, Area Head – Senior Manager, Kolkata of the Noticee and a potential client regarding the fixed return scheme, it is observed that the Noticee is involved in providing assured returns to its clients. A summary of the translated conversation is as under:

Apart from broking business, LFS offers 15% p.a. return on money given to LFS under PMS. Manish gave example of how when bank goes bankrupt, as per government norms, customers won't get more than Rs.1 lakh. He explained that under PMS, the comparative risk is negligible. Broker shall give payout within 24 hours. If within 3 months, customer has unutilized money and there is no trading activity, broker must return money to client. PMS has no lock-in period. Further, he provided example that if Rs.20 lakhs is invested by client, the client will earn monthly interest of approx. Rs.15,000 (calculated @15% p.a.). Manish is further noted saying that it is not illegal as client will give money to LFS through cheque. He further advised client that he can show advisory certificate so that it is allowable by Income Tax. Also, Manish was noted

saying that it is not chit fund. Client money will be debited from bank account and shares bought credited to demat account.

2.4.2. Failure to make arrangements for internal review, at least annually, of the business to detect and prevent violations and achieve compliance of the Byelaws, Rules and Regulations of the Exchange

a. Complaints from clients regarding fixed return

Upon review of the emails sent by the clients to the Noticee, it is observed that the clients were either enquiring about the fixed returns provided by the Noticee or complaining about the Noticee's failure to provide potential fixed monthly return on their investments. Some key enquiries and complaints are as follows:

- i. Mr. Kumar Vaibhav (Client Code: 120000006) – The Noticee informed the client that he will receive Rs.20,000/- per month on his investment of Rs.1,00,000/-. The client complained about unauthorized trading in his account. Upon review of the client ledger, it is observed that the client initially invested Rs.1,00,000/- on October 5, 2019. Against the total investments of Rs.1,48,414/- during the review period, the Noticee paid Rs.4,87,905/- to the client. However, there was no potential fixed monthly pay-outs to the client. The payouts made to the client were towards trading activities in the client ledger as net bill entries (profit) reflected in client ledger amounted to Rs.2,44,904/-.
- ii. Mr. Bhaskar Pathak (Client Code: 117000002) – The client complained that the Branch Manager of the Noticee at Guwahati, guaranteed that the Noticee will provide 20% profit per month. Additionally, the client complained about unauthorized trading in his account without his knowledge. Upon review of the client ledger, it is observed that the client initially invested Rs.50,000/- on November 16, 2018. Against the total

investments of Rs.50,000/- during the review period, the Noticee paid Rs.50,431/- to the client. The net bill entries (loss) reflected in the client ledger amounted to Rs.8,899/-.

- iii. Mr. Dipankar Ghosh (Client Code: 112060152) – The Noticee issued a cheque for Rs.20,000/- in favor of LFS PMS Services. He did not receive any intimation of monthly pay-out of 2% on his deposit. He requested the Noticee to provide certificate of investment/deposit and e-statement. Upon review of the client ledger, no bank payment/bank receipt entries or trading activities is noted. Additionally, no ledger or bank account is noted under the name of LFS PMS Services.

b. Investment documents not shared with client

Ms. Ghoshal Sudipta (Client Code: 112011056) – The client claimed that she did not receive any document against her investment. She requested for monthly commission statement to be sent to her UBI account.

c. Enquiries from potential customers on fixed return

- i. The Noticee received 3 emails on its email ID customersupport@fsbroking.co.in wherein people were enquiring about potential fixed returns offered by the Noticee in terms of guaranteed monthly returns or 2% monthly interest or monthly interest return. These emails were then forwarded to Mr. Soumitra Sinha, Director or Mr. Chandan Manna, Branch Manager, Arambagh.

- ii. An email was noted whereby the sender Mr. Tapash Chowdhury questioned the Noticee about the security of principal amount and enquired whether it was a ponzy scheme.

d. Enquiries from potential remisier on fixed return commission

Emails were noted regarding fixed monthly income, its benefits and how one can become a remisier with the Noticee. Reference was given to the scheme which gave 2% of return every month and 1% as commission to the remisier. The complaints from the clients or enquiries received by the Noticee were forwarded to the directors of the Noticee, i.e. Mr. Soumitra Sinha or Mr. Saiyad Rahaman Jiyajur or both. In one case, the Noticee mutually settled the client's complaint in Grievance Redressal Committee of the Exchange. In another case, the Noticee reversed the brokerage paid by the client. It is observed that the Noticee received multiple emails enquiring about fixed returns to the clients. Additionally, the Noticee received complaints from existing clients whereby the clients complained that the Noticee failed to provide potential fixed monthly return to them on their investments. The Noticee received enquiries from potential remisier/customers on fixed return commission.

3. **SHOW-CAUSE NOTICE**

3.1. Based on the aforesaid observations, the Exchange issued a show-cause notice ("**SCN**") dated September 23, 2022, to the Noticee seeking an explanation for the observed non-compliances with the regulatory provisions.

3.2. The Noticee, vide its email dated October 15, 2022, replied to the SCN.

4. **REGULATORY PROVISIONS**

Based on the observations made out in paragraph 3 above, the following acts of the Noticee violate the provisions of the Rules of the Exchange, and the circulars issued by SEBI and Exchange:

4.1. **Engagement as a principal 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 a 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. Clause A (5), Schedule II, SEBI (Stockbroker) Regulation, 1992

A. *General*

(5) *Compliance with statutory requirements: A stockbroker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.*

c. Regulation 4.5.1 of NSEIL Regulations (CM and F&O Segments)

4.5.1 *ADHERENCE TO SEBI CODE OF CONDUCT*

The Trading Member shall at all times subscribe to the Code of Conduct as prescribed by the Securities and Exchange Board of India (Stockbrokers) Regulations, 1992.

d. Rule 3(d) of Chapter IV of NSEIL Rules

Misconduct

(3) *A trading member shall be deemed guilty of misconduct for any of the following or similar acts or omissions namely:*

(b) *Violation: If it has violated provisions of any statute governing the activities, business and operations of the Exchange, trading members and securities business in general.*

- e. 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).

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

Members are not permitted to engage in any business or activities or transactions, directly or indirectly, other than that of securities or commodity derivative except as a broker or agent not involving any personal financial liability.

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.*

4.2. **Failure to make arrangements for internal review of the business to detect and prevent violations and achieve compliance of the Byelaws, Rules and Regulations of the Exchange**

- a. Regulation 4.2.2 of NSEIL Regulations (CM Segment)

INTERNAL INSPECTIONS

Each Trading Member shall conduct a review, at least annually, of the business in which it engages, which shall be reasonably designed to assist in detecting and preventing violations of and achieving compliance with Bye Laws, Rules and Regulations.

5. **PRESENT PROCEEDINGS BEFORE MCSGFC**

- 5.1. The Exchange, vide its email dated October 20, 2022, provided the Noticee with an opportunity for a personal hearing before the Committee. On behalf

of the Noticee, Mr Soumitra Sinha - Director, Mr Shambhu Mishra - Compliance Officer, Mr Chandan Manna - Regional Manager, and Mr Ashok Kumar Singh - Authorized Representative, appeared before the Committee and made the following oral submissions:

- a. The case is framed completely based on misconstruction of law. The entire case revolves around Mr Saiyad Jiajur Rahman, Director/Shareholder.
- b. There are two entities, viz. LFS-PMS (proprietorship firm of Mr Saiyad Jiajur Rahman) and MOLC (partnership firm of Mr Saiyad Jiajur Rahman). Neither the Company Law nor the Byelaws of the Exchange bars a director/shareholder of a Trading Member from becoming a director/proprietor in any other entity.
- c. 87% of the total shareholding of the Noticee is controlled by Mr. Saiyad Jiyajur Rahaman.
- d. Only the Noticee is involved in the broking business. The proprietorship/partnership firms are engaged in real estate business, primary material supply etc., and are not involved in the securities market.
- e. The Noticee is not engaged in proprietary trading. It does not have any trading account in the name of LFS-PMS and MOLC.
- f. The Trading Member is not allowed to do business other than securities either as a principal employer or employee. Therefore, the Noticee is not engaged in any business other than securities.
- g. The conversation referred to in SCN is with a potential client.
- h. Though the Noticee is a registered as Portfolio Manager with SEBI since May 7, 2019, it did not undertake any business till date due to Covid-19 pandemic. No client is registered with the Noticee for PMS. The Noticee denied issuing any advertisement for PMS.
- i. The Noticee did not offer assured return to its clients. The forensic auditor too did not identify such observation.
- j. The clients referred to in the SCN are potential clients. There is no

investment from these clients.

- k. The Committee was informed that Mr. Saiyad Jiyajur Rahaman would be exiting from the directorship within 2 months. However, no resignation letter was shown to the Committee.

5.2. Since the Noticee refuted to the charge of offering assured returns, the Committee inquired with the Exchange whether any further evidence could be provided. The Exchange produced the evidence in the form of video clip showing speeches made by Mr. Saiyad Jiyajur Rahaman and copies of pamphlet distributed by the Noticee to substantiate the said charge. The Exchange screened the video clip and displayed the pamphlet to the Committee. It is apparent from the video clip of the News Aaj Bangla Channel on Youtube that the Noticee is already giving 2% monthly assured returns to its clients and also providing commissions to its remisers/ agents who are introducing such clients. They have been doing this kind of business across the nation and they have the experts to run such business. Mr. Sayed Jiyajur Rehman was observed speaking with the media personals about the research team providing stock tips and minimizing the risk and providing good returns. The pamphlet contains the details about assured return along with name, office address, contact numbers, email ID, SEBI registration number and logo of the Noticee was also displayed. Thereafter, the Noticee accepted the video clip on assured returns and confirmed that the contact details on the pamphlet pertains to the Noticee.

6. **CONSIDERATION & FINDINGS**

- 6.1. The Exchange initiated investigation and forensic audit to ascertain whether the Noticee is offering assured returns and identifying the role of the management and the directors of the Noticee in running the said activity.
- 6.2. From the records of the Exchange, it is observed that Mr. Saiyad Jiyajur Rahaman is the Dominant Promoter and Director of the Noticee. Mr. Saiyad Jiyajur Rahaman is a Partner of MOLC and Proprietor of LFS-PMS and MOLC.
- 6.3. There is inflow and outflow of funds between the registered clients of Noticee and LFS-PMS and MOLC. 333 registered clients of the Noticee have credited funds amounting to Rs.2.01 crores to the accounts of LFS-PMS and MOLC maintained with IDBI Bank. Further, 6219 registered clients of the Noticee received funds amounting to Rs.266 crores from the accounts

of LFS-PMS and MOLC maintained with IDBI Bank.

- 6.4. There is outflow of funds from LFS-PMS and MOLC to the key managerial personnel, shareholders, and other related entities of the Noticee. Rs.32.83 crores were transferred from the accounts of LFS-PMS and MOLC maintained with IDBI Bank Ltd. to key managerial personnel, shareholders, and other related entities of the Noticee.
- 6.5. There is sufficient evidence on record and produced before the Committee to indicate that the Noticee is involved in offering assured returns. The video clip and the pamphlet distributed was shown to the representatives of the Noticee who were present at the hearing and the contents thereof have not been disputed by the representatives of the Noticee. Though the Noticee filed a reply to the SCN, considering that the issues involved have a direct bearing on the assets of the innocent investors who are clients of the Noticee, the Committee finds that there is a potential threat to the gullible investors. It is necessary in the interest of securities market to take emergent steps to protect the investors at large.
- 6.6. Therefore, the Committee is of the opinion that the Noticee, through Mr. Saiyad Jiyajur Rahaman, Dominant Promoter and Director, is engaged in unwarrantable business by offering assured returns to its clients by running unauthorized portfolio management services. Further, the Noticee misled the Exchange by denying the charge of running unauthorized portfolio management scheme.
- 6.7. From the available records and submissions made by the Noticee, it is evident that the Noticee acted irresponsibly and created significant risk for the investors. Continuity of the operations of the Noticee will seriously hamper the interest of investors and create additional risks for potential investors in the securities market.
- 6.8. In view of the above, the Committee decided to pass an interim order after scrutinizing the information produced before it.

DECISION

7. In the interest of the investors and securities market, the Committee issues the following interim directions:

- 7.1. The trading membership of the Noticee shall stand suspended in all segments with immediate effect.
- 7.2. The Exchange shall provide the video link and any other documents as may be sought by the Noticee with respect to the charge. The Noticee shall submit its reply within 15 days from the date of receipt of the video clip and pamphlet from the Exchange.

Sd/-
Mona Bhide
(Chairperson)

Sd/-
K Narsimha Murthy
(Committee Member)

Sd/-
Anuradha Rao
(Committee Member)

Sd/-
Ranganayakulu Jagarlamundi
(Committee Member)

Sd/-
Ashish Kumar Chauhan
(Committee Member)

Date: November 5, 2022