



**Before the  
Member and Core Settlement Guarantee Fund Committee  
("MCSGFC"/"Committee")  
of  
National Stock Exchange of India Limited  
Exchange Plaza, Bandra-Kurla Complex, Bandra East, Mumbai – 400051  
held on February 18, 2022**

**In the matter of Trading Member M/s. Concunsmart Shares and Stock Pvt. Ltd.**

**CORAM:**

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

**PRESENT:**

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

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**BACKGROUND**

1. **M/s. Concunsmart Shares and Stock Broker Pvt. Ltd. ("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 2018, Futures & Options ("**F&O**") and Commodity ("**COM**") segments since August 2019.
2. The Exchange conducted a regular inspection of the Noticee's books of accounts and records covering the period October 1, 2020, to September 30, 2021, across segments, from November 25, 2021, to February 11, 2022. Post-inspection, the Exchange issued a show-cause notice dated February 14, 2022, to the Noticee for the observed non-compliances ("**SCN**").

**INSPECTION OBSERVATIONS/ALLEGED VIOLATIONS**

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

3.1. Monthly/Regular pay-outs to clients



- a. The Noticee made monthly/regular pay-outs to 25 clients amounting to Rs.83.57 lakhs.
- b. In the case of 5 out of the said 25 clients, the monthly/regular pay-outs have increased to the extent of Rs.51.44 lakhs on receipt of additional funds.
- c. In the case of 2 out of the said 25 clients, monthly/regular pay-outs have resulted in a debit balance in the clients' accounts.

Given the above, it is observed that the Noticee has been providing assured returns to the clients.

### 3.2. Observations related to non-settlement of clients' funds and securities

- a. The Noticee did not settle the clients' funds and securities in 6 instances of 4 active clients involving Rs.5.16 lakhs and 11 inactive clients involving Rs.2.09 lakhs.
- b. The Noticee delayed the settlement of funds and securities of 4 clients.
- c. The Noticee delayed issuing the statement of accounts and retention statement to 2 clients.

### 3.3. Incorrect reporting of margin collected from clients

- a. The Noticee incorrectly reported the end of day ("EOD") margin collected from 2 clients in the F&O segment involving Rs.52,753/-.
- b. The Noticee incorrectly reported the peak margin collected from 3 clients in the F&O segment involving Rs.14,465/-.

### 3.4. Incorrect data submitted towards weekly monitoring of clients' funds

The Noticee submitted incorrect data towards weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of September 24, 2021, in the range of (-ve) Rs.14.09 lakhs to Rs.3.63 lakhs in 6 areas, viz. value of collateral deposited with Clearing Corporation in the form of cash and cash equivalents, total credit balance, total debit balance, own securities deposited as collateral with Clearing Corporation/Clearing Member, margin utilized for positions of credit balance clients, and free/unblocked collateral deposited with Clearing Corporation/Clearing Member.



## **REGULATORY PROVISIONS**

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

4.1 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 securities or commodity derivatives except as a broker or agent not involving any personal financial liability.*

4.2 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.*

4.3 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 (Stock Brokers) Regulations, 1992.*

4.4 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:*

*(a) ....*



*(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.*

### **PRESENT PROCEEDINGS BEFORE MCSGFC**

5. The Exchange, vide email dated February 15, 2022, granted the Noticee an opportunity for a personal hearing before the Committee. Mr Prashant Angane – Designated Director, and Mr Srinivas Yemula – Compliance Officer, on behalf of the Noticee, appeared for the personal hearing and made the following oral submissions:
  - a. The Noticee is not providing assured returns to clients. The Noticee made pay-outs to clients based on the clients' requests.
  - b. The Noticee shall submit documentary evidence to prove that it is not providing monthly/regular pay-outs to clients.

### **CONSIDERATION & FINDINGS**

6. In view of the foregoing paragraph, the Noticee is charged with violations such as providing monthly/regular pay-outs to clients, non-settlement/delayed settlement of clients' funds and securities/delayed issuance of the statement of accounts and retention statement to clients, incorrect reporting of margin collected from clients to the Exchange and incorrect submission of data towards the weekly monitoring of clients' funds.
7. The Noticee made monthly/regular pay-outs to 25 clients amounting to Rs.83.57 lakhs from October 2020 to September 2021. These monthly/regular pay-outs to clients are not in the normal course of the stockbroking business and indicate that the Noticee is providing assured returns to its clients.
8. The Noticee was advised to reply to the show-cause notice dated February 14, 2022, by February 24, 2022. Since the Noticee is charged with a grave violation concerning assured returns to its clients, the Exchange granted the Noticee an opportunity of personal hearing before the Committee to represent its case. Except for denial of the charge, the Noticee failed to provide any satisfactory explanation or documentary evidence to negate the charge.

### **DECISION**

9. In view of the foregoing, the Committee opines that urgent steps need to be taken to protect investors and the securities market. Accordingly, the Committee issues the following interim directions:



- a. The Noticee shall reply to the show-cause notice dated February 14, 2022.
  - b. The Noticee shall submit documentary evidence to the satisfaction of the Exchange in support of its claim that it is not providing assured returns to its clients within 15 days from the date of the order.
  - c. The Noticee is prohibited from registering new clients in all segments with immediate effect until further direction.
10. The proceedings of the MCSGFC meeting were held on February 18, 2022, through video conferencing. At this stage, it is not possible to sign a copy of this order, nor can the Exchange issue a certified copy of the order. Therefore, an electronic copy of this order sent from the Exchange's email id shall be treated as a signed copy for all purposes.

Sd/-  
Mona Bhide  
(Chairperson)

Sd/-  
Anuradha Rao  
(Committee Member)

Sd/-  
K Narasimha Murthy  
(Committee Member)

Sd/-  
Ranganayakulu Jagarlamudi  
(Committee Member)

Sd/-  
Vikram Limaye  
(Committee Member)

Date: March 14, 2022