



**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 the Trading Member M/s. GSV Securities 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 – Regulatory – Enforcement

BACKGROUND

1. **M/s GSV Securities Pvt. Ltd. ("GSV Securities")** is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**") and enabled for trading in the Capital Market ("**CM**") and Futures & Option ("**F&O**") segments since January 2007.
2. The Exchange conducted a limited purpose inspection of the books of accounts and records of GSV Securities to verify the data submitted towards weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of May 21, 2021, July 17, 2021, and July 19, 2021. Post-inspection, the Exchange issued a letter of observation dated August 25, 2021, to GSV Securities for the observed non-compliances of the regulatory provisions ("**LO**"). GSV Securities, vide email dated September 2, 2021, replied to the LO.
3. The Exchange conducted a limited purpose inspection of the books of accounts and records of GSV Securities for the period April 2020 to August 2021. Post-inspection, the Exchange issued a show-cause notice dated February 2, 2022, to GSV Securities

Regd. Office : National Stock Exchange of India Limited | Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051,
India +91 22 26598100 | www.nseindia.com | CIN U67120MH1992PLC069769

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for the observed non-compliances of the regulatory provisions ("**SCN**"). GSV Securities, vide email dated February 14, 2022, replied to the SCN.

INSPECTION OBSERVATIONS/ALLEGED VIOLATIONS

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

LO

4.1 Incorrect data reported towards weekly client level cash & cash equivalent balances

GSV Securities reported incorrect data towards weekly client-level cash and cash equivalent balances as of May 21, 2021, in 134 instances involving Rs.1.93 crores.

4.2 Incorrect data reported in the weekly holding statement

GSV Securities uploaded incorrect data in the weekly holding statement as of July 17, 2021, in 7 instances involving 3 scrips amounting to Rs.3,072/-.

- i. Excess securities reported in the weekly holding statement vis-à-vis the demat account holding statement in 1 instance involving 1 scrip amounting to 'NIL'.
- ii. Short securities reported in the weekly holding statement vis-à-vis the demat account holding statement in 6 instances involving 2 scrips amounting to Rs.3,072/-.

SCN

4.3 Non-settlement of clients' funds

GSV Securities did not settle the funds of 72 inactive clients (clients who have not traded for more than 90 days after March 31, 2021) amounting to Rs.17.24 lakhs.

4.4 Non-reporting of bank account

GSV Securities did not report 1 bank account to the Exchange under the Enhanced Supervision of Stockbrokers.

4.5 Fixed/Excess pay-outs to clients

GSV Securities made fixed weekly pay-outs to 14 clients in 86 instances in the range of Rs.0.10 lakhs to Rs.50 lakhs amounting to Rs.6.86 crores.

Further, GSV Securities made excess pay-outs to 6 clients in 7 instances amounting to Rs.7.86 lakhs despite debit balance in the clients' ledgers.

4.6 Shortfall in net worth

GSV Securities reported a net worth of Rs.76.65 lakhs as against the net worth of Rs.1 crore prescribed for GSV Securities by the Exchange, thereby resulting in a shortfall of Rs.23.35 lakhs.

4.7 Incorrect reporting of client level cash and cash equivalent balances

GSV Securities reported an incorrect ledger balance in 443 instances as of March 31, 2021, amounting to Rs.1.15 lakhs.

4.8 Incorrect data reported in the weekly holding statement

GSV Securities reported incorrect data in the weekly holding statement to the Exchange in 7 instances involving 3 scrips amounting to Rs.3,072/-

- a. Excess securities reported in the weekly holding statement vis-à-vis the demat account holding statement in 1 instance involving 1 scrip amounting to 'NIL'
- b. Less securities reported in the weekly holding statement vis-à-vis the demat account holding statement in 6 instances involving 2 scrips amounting to Rs.3,072/-

4.9 Non-maintenance of appropriate evidence in respect of the orders placed by the clients

GSV Securities did not maintain appropriate evidence regarding the orders placed by all 12 clients selected for sample scrutiny.

REGULATORY PROVISIONS

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

5.1 Regulation 3.2.1 of NSEIL Regulations (CM Segment) and Regulation 3.4.1 of NSEIL Regulations (F&O Segment)

Trading Members shall ensure that appropriate confirmed order instructions are obtained from the constituents before placement of an order on the system and shall keep relevant records or documents of the same and the completion or otherwise of these orders thereof. Notwithstanding the above, wherever the order instructions are received from clients through the telephone, Members shall mandatorily use a telephone recording system to record the instructions and maintain telephone recordings as part of its records.

No Trading Member or person associated with a Trading Member shall make improper use of the constituent's securities or funds.

5.2 Rule 8(3)(f) of the 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.

5.3 Rule 33 under Chapter III of the NSEIL Rules

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.

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

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

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

5.5 Exchange Circular No. NSE/INSP/24849 dated October 29, 2013

To address the administrative/operational difficulties in settling the accounts of regular trading clients (active clients), the Member may retain an amount of up to Rs 10,000/- (net amount across the segment and across stock exchanges), only after taking written consent of the client. The above threshold limit on retention of the amount shall not be applicable in the case of clients who have not traded even once during the last one month/quarter, as the case may be; i.e. settlement shall be done as per the aforesaid SEBI circular, in such cases.

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

2. Reporting of Bank and Demat accounts maintained by Stockbroker:

2.1 The stockbrokers shall inform the Stock Exchanges of existing and new bank account(s) in the following format:

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

8. Running Account Settlement

8.1. In partial modification of circular on running account settlement, the stockbroker shall ensure that

8.1.1 There must be a gap of a maximum of 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two running account settlements.

5.7 Exchange Circular No. NSE/INSP/35929 dated September 27, 2017

All brokers shall execute trades of clients only after keeping evidence of the client placing such order, it could be, inter alia, in the form of physical record written & signed by the client, telephone recording, email from authorized email id, log for

internet transactions, record of SMS messages and any other legally verifiable record.

When a dispute arises, the burden of proof will be on the broker to produce the above records for the disputed trades.

Further, wherever the order instructions are received from clients through the telephone, the stockbroker shall mandatorily use a telephone recording system to record the instructions and maintain telephone recordings as part of its records.

5.8 Exchange Circular No. NSE/INSP/39855 dated January 3, 2019

All Members were advised to comply with the requirement and upload the holding statement data electronically for all calendar days of the reporting week on or before the next four trading days of the subsequent week through the inspection module in the Member portal. The procedure for submission of the data was given in Annexure-1 of this circular.

5.9 Exchange Circular No. NSE/INSP/43488 dated February 10, 2020

Return of Clients assets: Members are required to ensure that all client accounts are settled on a monthly or quarterly basis (as per the client preferences) in the manner prescribed from time to time.

In case a member is unable to settle the client accounts due to non-availability of the client's bank account and demat account details and non-traceability of the client, Members are advised to make all efforts to trace the clients to settle their funds and securities lying with them and maintain an audit trail for such efforts made for tracing such clients and settling funds and securities of such clients.

Further in cases where Members are unable to trace such clients despite all efforts taken, members are directed to take the following steps:

- a. Open one separate client bank/client collateral demat account and immediately set aside the funds and securities of these clients in such account.*
- b. Maintain audit trail of UCC wise client funds transferred to/from such bank account and UCC wise / BO ID wise securities transferred to/from such demat account (as the case may be).*

- c. *Submit UCC wise/BO ID wise and fund/securities information of such account to the Exchange on a quarterly basis. The mechanism and the format of the same will be shared in due course.*
- d. *In case of receipt of any claims from such clients, members are advised to settle the accounts immediately and ensure that the payment/delivery is made to the respective clients only.*

5.10 Exchange Circular No. NSE/INSP/43926 dated March 23, 2020

Member's attention is drawn to Exchange Circular NSE/INSP/43486 dated February 10, 2020, regarding the proposed submission of the following data/details:

1. *Day-wise upload of client level cash & cash equivalent balances every week for all calendar days of that week except Sunday (i.e. Monday to Saturday);*
2. *Day-wise upload of bank balances (as per the bank statement) of all bank accounts every week for all the calendar days of that week except Sunday (i.e. Monday to Saturday)*

The aforesaid data/details shall be required to be submitted on or before the next four trading days of the subsequent week.

PRESENT PROCEEDINGS BEFORE MCSGFC

6. The Exchange vide email dated February 15, 2022, granted GSV Securities an opportunity of personal hearing before the Committee in its meeting held on February 18, 2022. Mr. G Vishnu Vardhan Reddy, Managing Director, appeared before the Committee and made the following oral submissions:
 - a. The pay-outs were given to clients trading in the F&O segment. GSV Securities received the funds from the clients on Wednesday, clients traded on Thursday and GSV Securities made the pay-outs to the clients on Friday.
 - b. Regarding the Exchange's contention that GSV Securities made fixed pay-outs to the clients, GSV Securities denied making fixed pay-outs to the clients except in the case of 1 or 2 clients who paid Rs.1.50 lakhs to GSV Securities and took pay-outs for their monthly requirements.
 - c. Regarding the Exchange's contention that GSV Securities made fixed pay-outs to debit balance clients, GSV Securities submitted that the clients sold the securities;

however, due to medical emergencies, GSV Securities made the pay-outs to the clients on the same day based on the clients' requests.

CONSIDERATION & FINDINGS

7. The consideration and findings of the Committee are as under:

- 7.1 GSV Securities is charged with several violations in the SCN such as providing fixed/excess pay-outs to clients, non-settlement of clients' funds, the shortfall in net worth, non-reporting of bank account, incorrect reporting of client level cash and cash equivalent balances, incorrect data reported in the weekly holding statement, and non-maintenance of appropriate evidence of orders placed by clients.
- 7.2 GSV Securities has recouped the shortfall in net worth. The net worth of GSV Securities was Rs.2.17 crores as of September 30, 2021.
- 7.3 GSV Securities made fixed weekly pay-outs to 14 clients in 86 instances in the range of Rs.0.10 lakhs to Rs.50 lakhs amounting to Rs.6.86 crores. Further, GSV Securities made excess pay-outs to 6 clients in 7 instances amounting to Rs.1.93 lakhs despite debit balance in the clients' ledgers. These fixed/excess pay-outs to clients are not in the normal course of the stockbroking business and indicate that GSV Securities is providing assured returns to its clients.
- 7.4 In its reply to the SCN, GSV Securities denied making fixed/excess payouts to the clients.
 - a. Regarding fixed pay-outs to 14 clients, GSV Securities claimed that these clients traded in the F&O segment. GSV Securities received the funds from the clients on Wednesday, clients traded on Thursday and GSV Securities made the pay-outs to the clients on Friday. None of these clients were informed of any scheme or arrangement for fixed returns.
 - b. Regarding excess pay-outs to 6 clients despite debit balance, GSV claimed that it sold the securities on the clients' instructions, made payments to the clients only after selling the clients' securities for equal amounts, and the ledger was in debit till the settlement date. There was no misuse of clients' funds as no other clients' funds were used for such transactions. This is a one-time exception and not a normal practice.
- 7.5 The Committee finds that GSV made fixed/excess pay-outs to clients.

a. Regarding fixed pay-outs to 14 clients, GSV Securities claimed that these clients traded only in the F&O segment.

i. Upon verification of the trade data, it is observed as under:

7 clients traded in the CM segment, 3 clients traded in the F&O segment, and 4 clients traded in the F&O and CM segments.

ii. Upon verification of the clients' ledgers, it is observed as under:

CM Segment - The Noticee made monthly fixed pay-outs to 7 clients, viz. Arun Kumar Sood (Client Code: HYD003), Manoj Bajaj (Client Code: HYD251), Preet Mohinder Singh (Client Code: HYD252), Ramesh Chander Gulati (Client Code: HYD253), Ram Kumar (Client Code: HYD254), Anju Bajaj (Client Code: HYD255) and Ajay Kumar Sood (Client Code: HYD 256). Further, the Noticee made monthly fixed pay-outs to 5 clients despite debit balance in the clients' ledger, viz. Arun Kumar Sood (Client Code: HYD003), Ramesh Chander Gulati (Client Code: HYD253), Ram Kumar (Client Code: HYD254), Anju Bajaj (Client Code: HYD255), Preet Mohinder Singh (Client Code: HYD252). Hence, it is observed that the Noticee has a pre-obligation to make fixed pay-outs to the clients despite debit balance in the clients' ledgers.

F&O Segment - The Noticee made weekly fixed pay-outs to 3 clients, viz. Vuyyuru Barath Kumar Reddy (Client Code: HD0186), Harish Kumar Gangisetty (Client Code: HD0349), and Haseenarao Apparel (OPC) Pvt. Ltd. (Client Code: HYD039).

CM and F&O Segment - The Noticee made weekly/monthly fixed pay-outs to 4 clients, viz. Surya Shakti India Financial Pvt. Ltd. (Client Code: 3802), Marupudi Sravani (Client Code: HD0185), Amit Bajaj HUF (Client Code: HD0241), and Surindra Sood (Client Code: HYD247). Further, the Noticee made monthly fixed pay-outs to 1 client despite debit balance in the client's ledger, viz. Surindra Sood (Client Code: HYD247). Hence, it is observed that the Noticee has a pre-obligation to make fixed pay-outs to the client despite the debit balance in the client's ledgers.

iii. The Noticee was making fixed pay-outs of the same amount at the same interval to the clients and in some cases, the Noticee was making fixed pay-outs to clients despite debit balance in the clients' ledgers.

- b. Regarding excess/fixed pay-outs to 6 clients despite debit balance, GSV Securities accepted the observation/alleged violation and claimed that it was a one-time exception.
8. Given the fixed/excess pay-outs to the clients, the Committee opines that GSV Securities has engaged as a principal in business other than securities and thereby has contravened Rule 8(3)(f) of the Securities Contracts (Regulation) Rules, 1957. Such practice is detrimental to the investors' interest and therefore GSV Securities ought to be prohibited from undertaking new business as an interim measure of protection of investors' interest. Therefore, the Committee decided to pass an interim order without going into the merits of other observations/alleged violations mentioned in the LO and SCN which shall be dealt with subsequently by separate order.

DECISION

9. Accordingly, the Committee issues the following interim directions:
- a. GSV Securities Pvt. Ltd. shall cease to engage in activities that provide assured returns to the clients with immediate effect and provide documentary evidence to the Exchange.
- b. GSV Securities Pvt. Ltd. is prohibited from registering new clients 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 the Exchange can 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 16, 2022