

**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 January 24, 2023**

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

CORAM:

Ms Mona Bhide	- Chairperson
Mr K Narasimha Murthy	- Committee Member
Mr Ranganayakulu Jagarlamudi	- Committee Member
Mr S Ravindran	- Committee Member
Mr Ashishkumar Chauhan	- Committee Member

ALSO PRESENT:

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

1. **M/s Concunsmart Shares and Stock Broker Pvt. Ltd. ("Noticee")** is a Trading Member registered with the National Stock Exchange of India Ltd. ("**Exchange**"/"**NSEIL**") in the Capital Market ("**CM**") segment since December 2018, Futures & Options ("**F&O**") and Commodity Derivatives ("**COM**") segments since August 2019 (SEBI Registration No. INZ000205429).

SHOW-CAUSE NOTICE DATED FEBRUARY 14, 2022 ("SCN-1")

2. The Exchange conducted a regular inspection of the Noticee's books and records, covering the period from October 1, 2020, to September 30, 2021, across the segments, from November 25, 2021, to February 11, 2022. Post inspection, the Exchange issued SCN-1 to the Noticee to seek an explanation for the observed non-compliances with the regulatory provisions.

3. In view of the observations relating to the monthly/regular pay-out to clients, the Exchange, vide its email dated February 15, 2022, granted the Noticee with an opportunity of a personal hearing before the Committee in the meeting dated February 18, 2022.
4. On behalf of the Noticee, Mr. Prashant Angane - Designated Director and Mr. Srinivas Yemula - Compliance Officer, attended the personal hearing. Except for denial of the charge concerning assured returns to its clients, the Noticee failed to provide any satisfactory explanation or documentary evidence to negate the charge.
5. Therefore, to protect the interest of the investors and securities market, the Committee, vide its interim order dated March 14, 2022, issued the following interim directions:
 - 5.1 The Noticee shall reply to the show-cause notice dated February 14, 2022.
 - 5.2 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.
 - 5.3 The Noticee is prohibited from registering new clients in all segments with immediate effect until further direction.
6. The Exchange, vide its email dated March 14, 2022, forwarded the interim order to the Noticee.
7. The Noticee, vide its email dated February 24, 2022, replied to SCN-1.

SHOW-CAUSE NOTICE DATED APRIL 8, 2022 ("SCN-2")

8. In view of the irregularities concerning monthly/regular pay-outs to the clients, the Exchange initiated forensic audit against the Noticee to ascertain whether the Noticee is engaged in running any scheme offering fixed/assured returns.

9. Based on the interim update of the forensic auditor on April 7, 2022, and in continuation to the proceedings held under the SCN-1, the Exchange, vide its letter dated April 8, 2022, called upon the Noticee to submit an explanation to the observations and to attend the personal hearing before the Committee in the meeting dated April 11, 2022.

10. On behalf of the Noticee, Mr. Prashant Angane - Designated Director, Mr. Srinivas Yemula - Compliance Officer, Ms. Kirti Parabon - Manager, Mr. Sunil Bagwe and Mr. Tushar Pevekar - Authorised Representatives, attended the personal hearing.

11. In view of the observation/violation regarding assured returns, without going into the merits of other observations/violations mentioned in the SCN-1, the Committee, vide its interim order dated April 17, 2022, issued the following interim directions: -
 - 11.1 The trading terminals of the Noticee shall be disabled in all segments with immediate effect.
 - 11.2 The interim direction prohibiting the Noticee from registering new clients in all segments shall continue to be in force until further direction.
 - 11.3 The Noticee shall extend co-operation to the forensic auditor for completion of the forensic audit.
 - 11.4 In case the Noticee has any open positions in the Exchange-traded derivative contracts, the Noticee can close out/square off such open positions within 3 months from the date of order or at the expiry of such contracts, whichever is earlier. The Noticee can settle the pay-in and pay-out obligations in respect of transactions, if any, which have taken place before the date of this order.
 - 11.5 Upon the completion of the forensic audit, the Noticee shall be granted a final opportunity wherein the other observations/violations will be dealt with.

12. The Exchange, vide its email dated April 17, 2022, forwarded the interim order to the Noticee.
13. In compliance with the interim order, the Exchange disabled the trading terminals in all segments with effect from April 18, 2022.

SHOW-CAUSE NOTICE DATED SEPTEMBER 27, 2022 ("SCN-3")

14. Based on the final report received from the forensic auditors, the Exchange issued SCN-3 to the Noticee in continuation to SCN-1 and SCN-2 to seek an explanation for the observed non-compliances with the regulatory provisions.
15. The Exchange, vide its email dated October 24, 2022, granted the Noticee with an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. Prashant Angane - Director, Mr. Srinivas Yemula - Compliance Officer, Mr. Shiva Ram Angane, Mr. Vikrant Apte, Mr. Bharat Bagare, Mr. Vittal Sawant, and Mr. Amol Salvi - Authorized Representatives, attended the personal hearing in the meeting dated October 31, 2022.
16. During the meeting, the Noticee submitted that out of the cash/cheque receipts amounting to Rs.83 crores collected from the investors, Rs.8 crores is due for payment as of date. The Noticee intends to pay the Rs.8 crores to the investors and re-start its business.

INSPECTION OBSERVATIONS/VIOLATIONS

17. The observations/violations alleged in the SCN-1 and SCN-3 are summarized hereunder:

SCN-1

- 17.1 Monthly/regular pay-outs given to the clients
- 17.2 Observations related to settlement of clients' funds and securities
- 17.3 Incorrect reporting of margin collected from clients

17.4 Incorrect data submitted for weekly monitoring of clients' funds as of September 24, 2021

SCN-3

17.5 Regular pay-outs to clients

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

17.7 Non-reporting of bank account to the Exchange

17.8 Discrepancy in computation of net worth

17.9 Offering referral schemes which are not as per the prescribed guidelines

17.10 Receipts and payments of funds from/to clients transacted through own bank account

17.11 Inducing clients to execute trades

REGULATORY PROVISIONS

18. At the outset, it is appropriate to refer to the relevant regulatory provisions violated by the Noticee; extracts whereof are reproduced below:

18.1 Monthly/regular pay-outs given to the clients

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 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.

18.2 Observations related to non-settlement of clients' funds and securities

- a. 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.

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

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

18.3 Incorrect reporting of margin collected from clients

- a. Regulation 3.10 of NSEIL Regulations (F&O Segment)

The Trading Members must demand from its constituents the margin deposit which the Member has to provide under these Trading Regulations in respect of the business done by the Members for such constituents.

- b. Exchange Circular No. NSE/INSP/10367 dated February 28, 2008

All Clearing Members and Trading Members in the F&O segment are required to collect upfront initial margins from all the Trading Members/Constituents whose transactions are settled by them and also to report on a daily basis, details in respect of such margin due and collected.

- c. Exchange Circular No. NSE/INSP/43069 dated December 31, 2019

Exchange issued the clarification in the form of frequently asked questions on margin collection and reporting.

1. *What margins are required to be collected by Trading Members from clients in the Capital & Derivatives Segment?*

F&O Segment

In the F&O segment, it is mandatory for Trading Members to collect initial margin, net buy premium, delivery margin & exposure margin from respective clients on an upfront basis. It must be ensured that all upfront margins are collected in advance of the trade. Mark-to-market losses (MTM) shall be collected from clients by T+1 day.

16. *What does false reporting of margin/MTM (non-compliance) mean?*

Where the margins, including upfront margins / MTM losses, have not been collected/short collected by the Member in any of the applicable modes prescribed above; however, the same has been reported by the Member as collected, it would be construed as false reporting to the clearing corporation.

- d. Exchange Circular No. NSE/INSP/45072 dated July 21, 2020

2. *In order to align and streamline the risk management framework of both cash and derivatives segments, with respect to the collection of margins from the clients and reporting of short-collection/non-collection of margins, SEBI vide circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019, inter alia, required the Trading Members (TMs) / Clearing Members (CMs) in cash segment as well to mandatorily collect upfront VAR margins and ELM from their clients.*

Framework to enable verification of upfront collection of margins from clients in cash and derivatives segments

- (ii) *The client wise margin file (MG-12/13) provided by the CCs to TMs/CMs shall contain the EOD margin requirements of the client as well as the peak margin requirement of the client, across each of the intra-day snapshots.*
- (iii) *The member shall have to report the margin collected from each client, as at EOD and peak margin collected during the day, in the following manner:*

- a) *EOD margin obligation of the client shall be compared with the respective client margin available with the TM/CM at EOD. AND*
- b) *Peak margin obligation of the client, across the snapshots, shall be compared with respective client peak margin available with the TM/CM during the day.*

Higher of the shortfall in collection of the margin obligations at (a) and (b) above, shall be considered for levying of penalty as per the extant framework.

18.4 Incorrect data submitted for weekly monitoring of clients' funds

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:*

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 and uncleared cheques issued to clients and the margin obligations)

E- Aggregate value of proprietary non-cash collaterals i.e., securities which have been deposited with the clearing corporations and/or clearing member (across stock exchanges)

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

18.5 **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 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. **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).

18.6 **Non-reporting of bank account to the Exchange**

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

2.3.3. *Details of all existing bank and demat accounts shall be communicated to Stock Exchanges by the stock brokers in the format specified above within one month from the date of this circular.*

- 2.3.4. *All new bank and demat accounts opened by the stock brokers shall be named as per the above given nomenclature and the details shall be communicated to the Stock Exchanges within one week of the opening of the account.*

18.7 **Discrepancy in computation of net worth**

Exchange Circular No. NSE/COMP/49810 dated October 1, 2021

Trading Members/Clearing Members of the Exchange/NCL are required to maintain net worth as prescribed by the Exchange at all points in time as per the continuing membership norms of the Exchange.

Method of computation applicable is Dr L. C. Gupta as prescribed by Schedule VI of Securities and Exchange Board of India (Stockbrokers and Sub-brokers) (Second Amendment) Regulations, 2013.

Schedule VI of Securities and Exchange Board of India (Stockbrokers and Sub-brokers) (Second Amendment) Regulations, 2013.

The stockbroker 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.

Explanation.- 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.

18.8 **Offering referral schemes which are not as per the prescribed guidelines**

Exchange Circular No. NSE/INSP/43824 dated March 11, 2020

1. *For a particular referring person, the rate of the incentive should be flat (i.e. not slab based) and a single rate should be applied. It is*

hereby clarified that a trading member may have different referral incentive rates across different referring person.

2. The referring person should not undertake any form of selling/advisory activities in secondary market w.r.t securities and should not manage the portfolio of any person who is being referred. He/she should strictly limit his/her role to "Referral" only.

18.9 **Receipts and payments of funds from/to clients transacted through own bank account**

Regulation 6.1.6.1 (b) of the NSEIL Regulations (F&O Segment)

It shall be compulsory for all Trading Members to keep the money of the constituents in a separate account and their own money in a separate account. Bank account(s) holding constituent funds shall be named as "Name of Stock Broker - Client Account". No payment for transaction in which the Trading Member is taking a position as a principal shall be allowed to be made from the constituent's account.

Regulation 6.1.5 (b) of the NSEIL Regulations (CM Segment)

It shall be compulsory for all Trading Members to keep the money of the clients in a separate account and their own money in a separate account. Bank account(s) holding clients' funds shall be named as "Name of Stock Broker - Client Account". No payment for transaction in which the Trading Member is taking a position as a principal will be allowed to be made from the client's account.

18.10 **Inducing clients to execute trades**

- a. Exchange Circular No. NSE/INSP/43824 dated March 11, 2020

The referred client shall not be subjected to any kind of trade inducement by the referring person, and it shall be ensured that all instructions for placement of orders are obtained from the respective clients only.

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

Client shall not be subjected to any kind of trade inducement (including generating trade calls through the Interactive Voice Response (IVR) system) and shall ensure that all instructions for placement of orders are obtained from the respective client only.

PRESENT MCSGFC PROCEEDINGS

19. The Exchange, vide its email dated January 17, 2023, granted the Noticee with an opportunity of personal hearing before the Committee. On behalf of the Noticee, Mr. Prashant Angane - Director, Mr. Srinivas Yemula - Compliance Officer, Mr. Amit Sagare - Authorized Representative, attended the personal hearing and reiterated the written submissions.

CONSIDERATION & FINDINGS

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

SCN-1

20.1 Monthly/regular pay-outs given to the clients

20.1.1 The Exchange verified the clients' ledgers and observed the following irregularities:

- a. Pay-outs to 25 clients at monthly/regular intervals amounting to Rs.83.57 lakhs.
- b. Increase in the monthly/regular pay-outs to 5 clients amounting to Rs.51.44 lakhs on receipt of additional funds from such clients.
- c. Monthly/regular pay-outs to 2 clients resulting in debit balance in the client ledgers.

20.1.2 In reply to the SCN-1, the Noticee submitted as under:

a. Pay-outs to 25 clients at monthly/regular intervals amounting to Rs.83.57 lakhs

The dates of pay-outs to clients on a month-on-month basis is different. There is no correlation or proportional increase vis-à-vis the receipts. In many cases, the clients have made pay-out requests via email and the documentary proofs were available. Hence, withdrawal of fixed sums by clients does not necessarily mean that the Noticee is providing regular/monthly pay-outs under an artifice. The Noticee issues contract notes, daily margin statements, ledgers, statements of funds and securities on quarterly settlement, and all other communications to the clients on their registered email ID and mobile number. The Noticee provided communication logs of contract notes, ledgers, statement of funds and securities to the Exchange. Further, the trading activities of the clients and profit and loss thereof have not been considered. In certain cases, the cheque/NEFT issued and subsequently returned are shown as fresh receipts and pay-outs.

In the case of 15 out of 25 clients, the Noticee did not make any regular or monthly pay-outs as alleged. The Noticee provided a detailed instance-wise explanation. For the remaining 10 clients, the Noticee reiterated and submitted that the pay-outs are released as per the clients' instructions. The Noticee provided declaration from the clients stating *inter alia* that the pay-out is issued to them as per their request.

The pay-outs have been made on different dates and not at fixed intervals.

b. Increase in the monthly/regular pay-outs to 5 clients amounting to Rs.51.44 lakhs on receipt of additional funds from such clients

The pay-outs are made on different dates and not at fixed intervals. The increase in pay-outs is not co-related to or proportional to the receipts as alleged.

c. Monthly/regular pay-outs to 2 clients resulting in debit balance in the clients' accounts

The staff erroneously processed payments resulting in debit balance in the client ledgers. In the case of Client Codes: IS0327 and IS11645, the staff incorrectly considered future pay-out that were due on 2nd and 3rd day instead of T-day while processing the pay-out request. The Noticee provided copies of ledgers showing credits on T+2 day to the Exchange.

d. In view of above submissions, the Noticee did not enter into any agreement or arrangement with any client beyond its relationship as a stockbroker and did not undertake any transaction involving personal liability.

20.1.3 The Committee finds as under:

a. Pay-outs to 25 clients at monthly/regular intervals amounting to Rs.83.57 lakhs

i. Although the Noticee contended that it released the pay-outs on the clients' request, it failed to provide email requests received from 14 out of 25 clients, and furthermore failed to provide evidence for some of the dates of pay-outs to 11 clients. Hence, the violation persists.

ii. Although the Noticee contended that it released the pay-outs on different dates and not at fixed interval, it is observed that the pay-outs were at monthly rests. For instance -

- Client Code IS10015: The Noticee paid Rs.33,000/- every month from January 2021 to September 2021.
- Client Code IS0327: The Noticee paid Rs.14,791/- every month from December 2020 to September 2021.

- Client Code IS0447: The Noticee paid Rs.17,511/- every month from October 2020 to September 2021.
- iii. Although Noticee contended that there is no co-relation or proportional increase of payouts vis-à-vis the receipt of funds from clients, it is observed that Noticee made fixed payout at 3% per month on the funds received from clients. Hence, the Noticee was engaged in providing fixed returns to clients which increased in proportion to increase in funds received from clients. The details are illustrated below: -
- Client Code IS10066: The Noticee made pay-out of Rs.10,500/- on January 11, 2021 (3% per month of the amount received from the client on December 4, 2020, i.e. Rs.3.50 lakhs). Thereafter, the pay-out increased to Rs.15,000/- after the Noticee received an additional amount of Rs.1.50 lakhs from the client on December 31, 2020 (3% per month of the total amount received from the client i.e. Rs.5 lakhs).

IS10066	Balkrishna Vishnu Kulkarni	
Date	Payouts	Receipts
JV (04-Dec-20)		3,50,000.00
31/Dec/20	-	1,50,000.00
11/Jan/21	10,500.00	-
08/Feb/21	15,000.00	-
16/Mar/21	15,000.00	-
20/Apr/21	16,500.00	-
09/Jun/21	15,000.00	-
20/Jul/21	15,000.00	-
06/Aug/21	15,000.00	-
09/Sep/21	15,000.00	-
24/Sep/21	1,803.00	-
	1,18,803.00	5,00,000.00

- Client Code ISC0031: The Noticee made pay-out of Rs.4,500/- on April 12, 2021 (3% per month on the amount received from the client on March 17, 2021, i.e. Rs.3 lakhs). Thereafter, the Noticee made pay-out

of Rs.18,000/- for April 2021 and May 2021, on June 7, 2021, pay-out of Rs.9,000/- for June 2021 on July 6, 2021, and pay-out of Rs.9,000/- for July 2021 on August 6, 2021 (3% per month on the amount received from the client on March 17, 2021, i.e. Rs.3 lakhs). Thereafter, the pay-out increased to Rs.13,500/- for August 2021 on September 9, 2021, after the Noticee received an additional amount of Rs.1.5 lakhs from the said client on August 4, 2021.

ISC0031	Vaishanavi Prashant Jamadar	
Date	Payouts	Receipts
17/Mar/21	-	3,00,000.00
12/Apr/21	4,500.00	-
07/Jun/21	18,000.00	-
06/Jul/21	9,000.00	-
04/Aug/21	-	1,50,000.00
06/Aug/21	9,000.00	-
09/Sep/21	13,500.00	-
	54,000.00	4,50,000.00

iv. Although the Noticee contended that in certain cases, the cheque/NEFT issued and subsequently returned are shown as fresh receipts and pay-outs, it is observed that the contention is true only for 4 instances pertaining to 3 out of 25 clients.

b. Increase in the monthly/regular pay-outs to 5 clients amounting to Rs.51.44 lakhs on receipt of additional funds

i. The Noticee’s contentions regarding pay-outs made on different dates and not at fixed intervals, and increase in pay-outs not co-related or proportional to the receipts are not valid for reasons given below:

- Client Code IS10338:

The Noticee made pay-out of Rs.7,000/- on February 8, 2021 (3% per month on Rs.2 lakhs received from the client on December 21, 2020, and Rs.1 lakh received from the client on January 21, 2021, i.e. 3%

x Rs.2 lakhs = Rs.6,000/- and 3% x Rs.1 lakh x 10 days/30 days = Rs.1,000/-). Thereafter, the Noticee made pay-out of Rs.9,000/- for February 2021 on March 8, 2021.

Thereafter, the Noticee made pay-out of Rs.13,500/- on April 7, 2021 (3% per month on Rs.3 lakhs received from the client on December 21, 2020, and Rs.1 lakh received from the client on January 21, 2021, i.e. 3% x Rs.3 lakhs = Rs.9,000/- and 3% x Rs.3 lakh received from the client on March 16, 2021, and March 17, 2021 x 15 days/30 days = Rs.4,500/-).

Thereafter, the Noticee made pay-out of Rs.27,000/- on May 4, 2021, June 7, 2021, and July 6, 2021 (3% per month on Rs.2 lakhs received from the client on December 21, 2020, and Rs.1 lakh received from the client on January 21, 2021, i.e. 3% x Rs.3 lakhs = Rs.9,000/- and 3% x Rs.3 lakh received from the client on March 16, 2021, and March 17, 2021 = Rs.9,000/- and 3% of Rs.3 lakhs received from the client on April 2, 2021, and April 9, 2021 = Rs.9,000/-).

IS10338	Vikas Moreshwar Deshpande	
Date	Payouts	Receipts
21/Dec/20	-	2,00,000.00
21/Jan/21	-	1,00,000.00
08/Feb/21	7,000.00	-
08/Mar/21	9,000.00	-
16/Mar/21	-	1,50,000.00
17/Mar/21	-	15,000.00
17/Mar/21	-	1,35,000.00
02/Apr/21	-	1,25,000.00
07/Apr/21	13,500.00	-
09/Apr/21	-	1,75,000.00
04/May/21	27,000.00	-
07/Jun/21	27,000.00	-
06/Jul/21	27,000.00	-
09/Aug/21	-	1,50,000.00
11/Aug/21	27,000.00	-

02/Sep/21	-	1,00,000.00
09/Sep/21	27,000.00	-
25/Sep/21	-	50,000.00
	1,64,500.00	12,00,000.00

c. Monthly/regular pay-outs to 2 clients resulting in debit balance in the clients' accounts

The Noticee attributed the observation to the erroneous processing of pay-outs by its staff.

d. The Noticee violated the provisions of Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957, by engaging in activities indicating monthly/regular pay-outs to clients.

20.2 Observations related to settlement of clients' funds and securities

20.2.1 The following irregularities were observed:

a. Non-settlement of clients' funds and securities

The Exchange verified the settlement declaration, register of securities, clients' ledgers, and trial balance. Upon verification, the Exchange observed that the Noticee did not settle the clients' funds and securities as under:

- i. Active Clients – 6 out of 100 instances selected for sample scrutiny involving Rs.5.16 lakhs (6% of the total sample instances verified)
- ii. Inactive Clients – 11 out of 457 clients selected for sample scrutiny involving Rs.2.09 lakhs (2.41% of the total sample clients verified)

b. Delay in settlement of clients' funds and securities in the case of 4 out of 50 clients selected for sample scrutiny

The Exchange verified the settlement declaration provided by the Noticee. Upon verification, the Exchange observed that the gap between two settlement dates is more than 90 days

in case of 4 out of 50 clients selected for sample scrutiny (8% of the total sample clients verified).

- c. Delay in sending statement of accounts and retention statement to clients in 2 out of 100 instances selected for sample scrutiny

The Exchange verified the settlement declaration provided by the Noticee. Upon verification, the Exchange observed that statement of accounts and retention statement were not sent to clients within five days from the date of actual settlement in case of 2 out of 100 instances selected for sample scrutiny (2% of the total sample instances).

20.2.2 In reply to the SCN-1, the Noticee submitted as under:

- a. Non-settlement of clients' funds and securities
- i. Active Clients – 6 out of 100 instances selected for sample scrutiny involving Rs.5.16 lakhs

In 5 instances (Client Codes: IS7979, IS7555, IS0163, IS0163, IS10338), the observation is incorrect as the inspection team considered the value of client securities received as early pay-in while computing the amount. As per Exchange Circular No. NSE/INSP/43250 dated January 16, 2020, early pay-in of funds and securities is specifically excluded from the calculation of amount required to be settled. The Noticee provided copies of retention statement and statement of funds and securities of the said clients to the Exchange for verification.

In 1 instance (Client Code: IS7555), the client's account was settled on December 7, 2020, hence, there is no violation. The Noticee provided copy of retention statement and statement of fund and securities of the said client to the Exchange for verification.

ii. Inactive Clients – 11 out of 50 clients selected for sample scrutiny involving Rs.2.09 lakhs

In the case of 3 clients (Client Codes: IS4861, IS5646 and IS5984), the Noticee released the pay-out by electronic fund transfer. However, the same was unsuccessful as the clients failed to update the change in their bank details in the Noticee's records. The Noticee provided relevant extracts of bank statements and bank modification forms to the Exchange for verification.

In the case of 2 clients (Client Codes: IS13259 and IS7382), the accounts were settled on alternate dates, hence, there is no non-compliance. The Noticee provided copy of retention statement and statement of fund and securities of the said clients to the Exchange for verification.

In the case of 6 clients, the Noticee settled the accounts subsequently. The Noticee provided copies of retention statements of the said clients to the Exchange for verification.

b. Delay in settlement of clients' funds and securities in the case of 4 out of 50 clients selected for sample scrutiny

In the case of 1 client (Client Code: IS7555), the observation is incorrect as the difference between two settlement dates, i.e. December 10, 2020, and January 19, 2021, is less than 90 days.

In the case of 2 clients (Client Codes: IS10883 and IS10338), the Noticee settled the clients' accounts on alternate dates in the same quarter. Hence, the difference between two settlements is not more than 90 days. The Noticee provided copies of retention statement and statement of fund and securities of the said clients to the Exchange for verification.

Thus, the Noticee settled 3 out of 4 clients within the prescribed time limit. Hence, there is no non-compliance in the case of 3 clients.

c. Delay in sending statement of accounts and retention statement to clients in 2 out of 100 instances selected for sample scrutiny

In the case of 1 client (Client Code: IS0327), the Noticee issued physical statements to family member of the client and subsequently issued the same to the client vide email dated November 27, 2020. The Noticee provided copy of acknowledgement of retention statement to the Exchange for verification.

In the case of 1 client (Client Code: ISC0059), the Noticee issued the statement within 5 working days as October 2, 2021, was a Saturday and a public holiday on account of Gandhi Jayanti and October 3, 2021, was a Sunday.

d. Based on the above submissions, non-settlement is observed in only 7 out of 507 samples verified (50 active and 457 inactive) which is less than 2% of the sample size. Considering the quantum in terms of numbers and value, the aforesaid non-compliance should be classified as procedural in nature.

20.2.3 The Committee finds as under:

a. Non-settlement of clients' funds and securities

i. Active Clients – 6 out of 100 instances clients selected for sample scrutiny involving Rs.5.16 lakhs

- *In 5 instances (Client Codes: IS7979, IS7555, IS0163, IS0163, IS10338), the Noticee contended that the Exchange considered the value of client securities received as early pay-in.*

However, the Exchange already extended the benefit of retention of the value of securities under T Day/T-1 Day securities pay-in obligation against the value of client securities received as early pay-in. Hence, the Noticee's contention is not acceptable.

- *In 1 instance (Client Code: IS7555), the Noticee claimed that it settled the client's account on December 7, 2020.*

The Noticee provided retention statement for verification. However, the Noticee failed to provide contract notes for T Day and T-1 Day obligation and MG13 file for margin retention. Hence, it cannot be concluded that the Noticee settled the client on December 7, 2020.

ii. Inactive Clients – 11 out of 50 clients selected for sample scrutiny involving Rs.2.09 lakhs

- *In the case of 3 clients (Client Codes: IS4861, IS5646 and IS5984), the Noticee claimed that it released the pay-out by electronic fund transfer; however, the transaction was unsuccessful as the clients failed to update the change in their bank details in the Noticee's records.*

In the case of 1 client (Client Code: IS5646), upon verification of the extract of bank statement and bank account modification request submitted by the Noticee, it is observed that the electronic fund transfer failed on September 16, 2021. Hence, the Noticee's contention is acceptable.

In the case of 2 clients (Client Codes: IS4861 and IS5984), the bank account modification requests are dated post-September 2021. The Noticee failed to provide proof of the failure of pay-out. Hence, the Noticee's contention is not acceptable.

- *In the case of 2 clients (Client Codes: IS13259 and IS7382), the Noticee claimed that the accounts were settled on alternate dates.*

In the case of Client Code: IS7382, upon verification of the retention statement and statement of accounts provided by the Noticee, it is observed that the Noticee's claim is valid.

In the case of Client Code: IS13259, as per Exchange Circular No. NSE/INSP/48624 dated June 16, 2021, for clients having credit balance and who have not done any transaction in the 30 calendar days since the last transaction, the Trading Member shall return the credit balance to the client within next three working days irrespective of the date when the running account was previously settled. Since the client did not execute any trades in September 2021, the Noticee was required to settle the funds payable to the client within 3 working days. Hence, the Noticee's contention is not acceptable.

- *In the case of 6 clients, the Noticee claimed that it settled the clients' accounts subsequently.*

The Noticee provided only the retention statement in support of its claim. In the absence of proof of pay-out made to clients, i.e. extract of bank statements, it cannot be concluded that the clients were settled post inspection. Further, post-inspection compliance does not absolve the Noticee from the violation committed.

iii. Hence, the violation stands revised to 9 clients amounting to Rs.2.09 lakhs.

b. Delay in settlement of clients' funds and securities in the case of 4 out of 50 clients selected for sample scrutiny

- *In the case of 1 client (Client Code: IS7555), the Noticee claimed that the observation is incorrect as the difference between two settlement dates, i.e. December 10, 2020, and January 19, 2021, is less than 90 days.*

Upon verification of the Noticee's contention, it is observed that the date of settlement was inadvertently mentioned as December 10, 2020, instead of October 12, 2020, in the SCN-1. Hence, the violation does not persist.

- *In the case of 2 clients (Client Codes: IS10883 and IS10338), the Noticee claimed that it settled the accounts*

on alternate dates in the same quarter, hence, the difference between two settlements is not more than 90 days. The Noticee provided copy of retention statement and statement of fund and securities of the said clients to the Exchange for verification.

Upon verification of the retention statement and statement of fund and securities of the said clients, the Noticee's contention is valid. Hence, the violation does not persist.

- In the case of 1 client (Client Code: IS0163), the Noticee failed to provide clarification for the delay in settlement. Hence, the violation persists.
- The violation stands revised to 1 out of 50 clients.

c. Delay in sending statement of accounts and retention statement to clients in 2 out of 100 instances selected for sample scrutiny

- *In the case of 1 client (Client Code: IS0327), the Noticee claimed that it issued physical statement to family member of the client and subsequently issued the same to the client vide email dated November 27, 2020. The Noticee provided the acknowledged copy of the retention statement to the Exchange for verification.*

Upon verification of the acknowledged copy of the retention statement provided by the Noticee, it is observed that no date is mentioned on the acknowledgement. Hence, the Noticee's contention is not acceptable, and the violation persists.

- *In the case of 1 client (Client Code: ISC0059), the Noticee claimed that it issued the statement within 5 working days as October 2, 2021, was a Saturday and a public holiday on account of Gandhi Jayanti and October 3, 2021, was a Sunday.*

The Noticee's contention is acceptable, and the violation does not persist.

- The violation stands revised to 1 out of 100 instances.

d. As per Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, and Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the Trading Members are required to settle the accounts of all its clients monthly/quarterly as per client preference. the Noticee violated the regulatory provisions mentioned above by failing to settle and delaying the settlement of clients' funds and securities.

20.3 **Incorrect reporting of margin collected from clients**

20.3.1 The Exchange verified end of day margin, peak margin, and Exchange's records pertaining to margin requirement and margin reported by the Noticee. Upon verification, the Exchange observed that the Noticee incorrectly reported margin collected from its clients in the F&O segment as under:

- a. EOD Margin: 2 out of 11 clients selected for sample scrutiny involving Rs.52,753/-
- b. Peak Margin: 3 out of 11 clients selected for sample scrutiny involving Rs.14,465/-

20.3.2 In reply to the SCN-1, the Noticee submitted as under:

- a. Client Code ISC0050 (Incorrect EOD Margin: Rs.52,345/- and Peak Margin: Rs.12,780/-)

The Noticee received a cheque of Rs.1 lakh on July 27, 2021; however, it was returned by the branch immediately on the next day, i.e. July 28, 2021, due to overwriting on the cheque which was not counter signed by the client. The margin obligation pertained to the period when the said cheque was still in the Noticee's custody and the Noticee was awaiting rectification from the client. Since the client was unable to visit, he transferred the funds through NEFT. It would have been

incorrect to report that the margin was not available since the cheque would have been cleared within 5 days in the usual course. The Noticee provided copy of bank statement evidencing the return of the cheque to the Exchange for verification.

- b. Client Code IS13026 (Incorrect EOD Margin: Rs.408/- and Peak Margin: Rs.306/-)

The amount of shortfall is miniscule. In view of the non-materiality of the amount involved, the Noticee requested the Exchange to take a lenient view.

- c. Client Code IS5174 (Incorrect Peak Margin: Rs.1,379/-)

The inspection team did not consider the ledger balance of Rs.70,738/-. The Noticee provided a copy of the client ledger to the Exchange for verification.

20.3.3 The Committee finds as under:

- a. Client Code ISC0050 (Incorrect EOD Margin: Rs.52,345/- and Peak Margin: Rs.12,780/-)

The Noticee failed to provide documentary evidence, viz. deposit slip of the cheque that was returned/rejected by the bank, bank statement and ledger of the Noticee, to prove that funds were later received through NEFT. In the absence of documentary evidence, the violation persists.

- b. Client Code IS13026 (Incorrect EOD Margin: Rs.408/- and Peak Margin: Rs.306/-)

The Noticee contended that the amount involved is miniscule and hence, a lenient view should be taken. The Noticee's contention is not acceptable, and the violation persists.

- c. Client Code IS5174 (Incorrect Peak Margin: Rs.1,379/-)

The Noticee claimed that the Exchange did not consider ledger balance of Rs.70,738/-. Upon verification, the violation does not persist.

- d. In view of the above, the violation stands revised to 2 instances involving Rs.52,753/-.
- e. As per Regulation 3.10 of NSEIL Regulations (F&O Segment), Exchange Circular No. NSE/INSP/10367 dated February 28, 2008, and Exchange Circular No. NSE/INSP/43069 dated December 31, 2019, the Trading Members are required to collect upfront initial margin from all the clients and report on daily basis details of such margin due and collected. The Noticee violated the regulatory provisions mentioned above by incorrectly reporting the margins collected from the clients.

20.4 **Incorrect data submitted for weekly monitoring of clients' funds**

20.4.1 The Exchange verified the data submitted by the Noticee towards weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of September 24, 2021, vis-à-vis the trial balance, client ledgers, bank statements, margin files, and records of the Exchange/Clearing Corporation/Clearing Member pertaining to collateral deposited. Upon verification, the Exchange observed that the Noticee submitted incorrect amounts in the range of (-ve) Rs.14.09 lakhs to Rs.3.63 lakhs in 6 areas as under:

Sr.	Particulars
B	Collateral deposited with Clearing Corporation/Clearing Member in form of cash and cash equivalents
C	Total credit balance of all clients
D	Total debit balance of all clients
E	Total value of own securities deposited as collateral with Exchanges
MC	Total value of margin utilized for positions of credit balance clients
MF	Total value of free/unblocked collateral deposited with Corporation/Clearing Member

20.4.2 In reply to the SCN-1, the Noticee submitted as under:

a. Collateral deposited with Clearing Corporation/Clearing Member in form of cash and cash equivalents

The mismatch is on account of omission by the Noticee to consider collaterals available with the Clearing Member.

b. Total credit balance of all clients

The underreporting was due to non-inclusion of the balances in the suspense account. The balance in suspense account pertains to funds received from unidentified clients, unidentified banks, clients whose account opening was in process or on hold for documentary requirements etc. Despite underreporting, the value of 'G' remains positive.

c. Total debit balance of all clients

The mismatch is on account of inclusion of error account balance by the Noticee.

d. Value of own securities deposited as collateral with Exchanges

The mismatch is on account of non-consideration of certain own securities by the Noticee.

e. Margin utilized for positions of credit balance clients

The mismatch is on account of consideration of figure based on "minimum margin" column of margin file by the Noticee whereas the calculation of the Exchange is based on "actual margin" column of margin file. In the absence of any specific guidelines of the Exchange on consideration of "minimum margin" or "actual margin", the Noticee conservatively reported the figure based on the "minimum margin" which is usually lower than actual margin.

f. Free/unblocked collateral deposited with Corporation/Clearing Member

The mismatch is on account of omission by the Noticee to consider collaterals available with the Clearing Member.

- g. The impact of incorrect reporting on the Principles of Enhanced Supervision is as under:

Principle	Reported (Rs)	Revised (Rs)
Principle 1: G	17,97,313	9,87,462
Principle 2: I	(44,08,828)	(43,69,677)
Principle 3: J	(54,87,337)	(50,40,389)

From the above table, it is observed that the incorrect reporting does not materially affect the overall compliance with the Principles of the Enhanced Supervision of Stockbrokers.

20.4.3 The Committee finds as under:

- a. The Noticee attributed the observation/violation to non-consideration of collaterals with the Clearing Member, non-inclusion of the balances in the suspense account, inclusion of error account balance, non-consideration of certain own securities, and consideration of figure based on “minimum margin” column of margin file.
- b. As per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the stock exchanges have put in place a mechanism for monitoring clients’ funds lying with the stockbroker to generate alerts on any misuse of clients’ funds by stockbrokers. The Trading Members should ensure to verify the data before submission to the Exchange. The Noticee violated the regulatory provisions mentioned above by reporting incorrect data for weekly monitoring of clients’ funds to the Exchange.

SCN-3

20.5 Regular pay-outs to clients

- 20.5.1 Upon verification of the clients’ ledgers and email communications, the following irregularities are observed:

- a. The Noticee offered various scheme to its clients wherein the Noticee claimed around 70% returns on investment to investors through various schemes.
- b. Pay-outs are given to 151 clients at regular intervals amounting to Rs.1.22 crores as per the details below:

Sr. No.	Scheme	Monthly pay-out	No. of investors	Investment range	Value of investment by the clients	Total fixed pay-out
1	Plan B	3% of the investment	133	1.01 to 0.25	4.45	0.67
2	EMI Scheme	Home loan EMI	18	1.02 to 0.29	1.50	0.55
Total			151		5.95	1.22

- c. Email communications stating that the Noticee's clients were enrolled for various schemes and the Noticee had paid 5% interest per month to various clients from Concusmart Parivar Bank A/c. No. 912020055452887 while the principal amount was invested by the clients in the Noticee's Bank A/c. No. 9180020097632997.
- d. Regular pay-outs amounting to Rs.0.05 crore made to clients over and above ledger balance have resulted in debit balance in the clients' accounts in case of 16 clients.

20.5.2 In reply to the SCN-3, the Noticee submitted as under:

- a. The Noticee offered various scheme to its clients wherein the Noticee claimed around 70% returns on investment to investors through various schemes.
 - The observations are false and incorrect.
 - The corresponding Exhibit 1-A seems to be an extract of a chart shown at Para 6.1.2 of the forensic audit report. The said chart is based on the review of mobile phone and audio clips etc. of the Noticee’s Director. The finding is false without any corroboration.

- The Exhibit 1-B and Exhibit 1-C are based on chart and the image of email dated August 11, 2021, as referred to the Para 6.1.3 of the audit report. The forensic auditor incorrectly assumed that the categorization of transactions with clients under the head "Plan-B" and "EMI" are reflective of alleged schemes offered to the clients. Mere use of the said terms in some of the email communications does not indicate existence of a scheme falsely alleged in the audit report. There is no material on record to show the existence of any transaction by the Noticee with the clients under any scheme.
- Further, during the Covid-19 pandemic, there were several irregular requests of withdrawals from clients as they were in dire need of money. The Noticee operated with limited staff and to avoid confusion regarding withdrawals, the Noticee requested the clients to seek fixed amounts of withdrawals from their own margin/ledger account. The clients agreed to the same. For the ease of understanding of the Noticee's staff, these withdrawals were categorized as A, B, EMI, etc. The Noticee did not offer any scheme to the clients.

b. Pay-outs are given to the clients at regular intervals in case of 151 clients amounting to Rs.1.22 crores

The amount mentioned is incorrectly shown to be paid to clients by the Noticee under alleged schemes. During the inspection period, the Noticee had almost 2,500 clients and an annual turnover of Rs.500 crores to Rs.600 crores. The alleged transactions pertain to the Covid-19 pandemic period when the lockdown was in force. The concerned transactions have nothing to do with any scheme of whatsoever nature and were purely a measure of stop-gap arrangement to help some of the clients who made requests to transfer their funds in advance to meet their financial needs out of their own respective trading accounts.

c. Email communications stating that the Noticee's clients were enrolled for various schemes and the Noticee had paid 5% interest per month to various clients from Concusmart Parivar Bank A/c. No. 912020055452887 while the principal

amount was invested by the clients in the Noticee's Bank A/c. No. 9180020097632997.

An entity by the name "Concunsmart Parivar" does not exist. Further, a bank account in the name of "Concunsmart Parivar" also does not exist. The alleged undated email communications as mentioned in the observations are not made available to the Noticee. The bank A/c. No. 912020055452887 is not in the name of the Noticee. The amounts received in the bank account maintained by the Noticee i.e. A/c. No. 9180020097632997 are received from the clients as margin fund for trading purposes. The Noticee denied the allegations levelled in the observation.

- d. Regular pay-outs amounting to Rs.0.05 crore made to clients over and above ledger balance which have resulted in debit balance in the clients' accounts in case of 16 clients.

The pay-outs occurred due to a clerical error. Upon noticing the said error, the Noticee recovered the amounts from the said 16 clients. The Noticee provided client ledgers to the Exchange for verification. The Noticee undertakes to provide the bank books to the Exchange as and when required.

20.5.3 The Committee finds as under:

- a. The Noticee offered various scheme to its clients wherein the Noticee claimed around 70% returns on investment to investors through various schemes

The Noticee claimed that it did not offer any scheme to the clients and pay-outs to clients were based on their request.

The Noticee's claim is not tenable as it failed to provide documentary evidence viz. client ledgers, pay-out request, bank statements to verify the pay-outs etc. to substantiate its claim. In the absence of documentary evidence, the violation persists.

- b. Pay-outs are given to the clients at regular intervals in case of 151 clients amounting to Rs.1.22 crores

The Noticee claimed that transactions pertain to the Covid-19 pandemic period and the pay-outs to clients were based on their request.

The Noticee's claim is not tenable as it failed to provide documentary evidence viz. client ledgers, pay-out request, bank statements to verify the pay-outs etc. to substantiate its claim. In the absence of documentary evidence, the violation persists.

- c. Email communications stating that the Noticee's clients were enrolled for various schemes and the Noticee paid 5% interest per month to various clients from Concunsmart Parivar Bank A/c. No. 912020055452887 while the principal amount was invested by the clients in the Noticee's Bank A/c. No. 9180020097632997

The Noticee claimed that Concunsmart Parivar Bank A/c. No. 912020055452887 does not exist. Furthermore, the amounts received from the clients in the Noticee's bank A/c. No. 9180020097632997 are margin funds for trading purpose.

The Noticee's claim is not tenable as it failed to provide documentary evidence viz. viz. client ledgers, bank statements, etc. to substantiate its claim. In the absence of documentary evidence, the violation persists.

- d. Regular pay-outs amounting to Rs.0.05 crore made to clients over and above ledger balance which have resulted in debit balance in the clients' accounts in case of 16 clients

The Noticee claimed that the pay-outs were made due to clerical error, and it recovered the amounts from the clients.

The Noticee's claim is not tenable as it failed to provide bank statements, client communication or intimation etc. to substantiate its claim. In the absence of documentary evidence, the violation persists.

- e. As per Exchange Circular No. NSE/COMP/50957 dated January 7, 2022, engagement by Trading Members in activities/schemes indicating fixed/guaranteed/regular returns/capital protection is construed as non-compliance with Rule 8(3)(f) of SCRR. The Noticee violated the regulatory provision mentioned above by making regular pay-outs to the clients.

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

20.6.1 Upon verification of the imaged servers, emails, mobile and other devices, the following irregularities:

- a. The Noticee's Director is involved in the activity of collection of cash/cheque from the investors in the name of proprietary firm named as "Concunsmart Parivar". The aggregate value of cash/cheque receipts amounted to Rs.83 crores. Approximately 3,000 physical copies of cash/cheque receipts collected by "Concunsmart Parivar" were found at the Noticee's premises.
- b. Concunsmart Parivar has collected Rs. 500 crores through its various schemes. Based on the review of the Noticee's director's mobile phone, an excel spreadsheet was noted which stated that more than Rs.300 crores have been paid from Concunsmart Parivar to its investors in the form of returns.
- c. The audio clips from the Noticee director's phone corroborate the business and various assured return schemes offered by Concunsmart Parivar and Concunsmart Shares and Stock Broker Private Limited.
- d. The Noticee used to give recommendations to purchase specific securities over the call which are termed as tips to the investor. The investor needs to invest in the tips shared by the Noticee as one of the conditions of the fixed return scheme.

- e. It appears that the goodwill of the Noticee, being a Member of SEBI, NSEIL and BSE, is used for the advantage of Concunsmart Parivar for getting the investors' acceptance for the schemes.
- f. Various schemes were offered by "Concunsmart Parivar" which assured fixed return on investment.
- g. Pamphlets were found which claimed assured returns offered to the clients by the Noticee. The scheme was advertised as a small investment for 10 years assuring big returns.
- h. The initial investment was made by the client in the Noticee's client bank account. The fixed return pay-out in accordance with the Plan A and EMI scheme of the Noticee are made from the Concunsmart Parivar bank accounts.

20.6.2 In reply to the SCN-3, the Noticee submitted as under:

- a. Involvement of the Noticee's Director in the activity of collection of cash / cheque from the investors in the name of proprietary firm named as "Concunsmart Parivar"

There is no entity by the name "Concunsmart Parivar" and that no bank account is operated by any of the directors in the name of "Concunsmart Parivar". The director of the Noticee was not involved in collection of cash/cheque from the clients. It is incorrect to state that physical copies of cash/cheque were found at the Noticee's premises. Neither the receipts nor the amount mentioned therein have any connection whatsoever with the Noticee. The accounts of the Noticee are duly audited and the returns are filed accordingly.

- b. Collection of Rs.500 crores by Concunsmart through its various schemes

The allegations are not only unsubstantiated but also unconnected with the Noticee and are mainly concerned with the alleged entity "Concunsmart Parivar".

c. Offering assured return schemes by Concunsmart Parivar and the Noticee

The allegations are not only unsubstantiated but also unconnected with the Noticee and are mainly concerned with the alleged entity "Concunsmart Parivar".

d. Investment in the tips shared by the Noticee as one of the conditions of the fixed return scheme

The allegations are not only unsubstantiated but also unconnected with the Noticee and are mainly concerned with the alleged entity "Concunsmart Parivar".

e. Use of the goodwill of the Noticee to the advantage of Concunsmart Parivar for getting the investors' acceptance for the Parivar schemes.

The allegations are not only unsubstantiated but also unconnected with the Noticee and are mainly concerned with the alleged entity "Concunsmart Parivar".

f. Offering various schemes by "Concunsmart Parivar" assuring fixed return on investment

The allegations are not only unsubstantiated but also unconnected with the Noticee and are mainly concerned with the alleged entity "Concunsmart Parivar".

g. Pamphlets offering assured returns to the clients

The Noticee denied paying fixed returns from the alleged "Concunsmart Parivar" bank account under EMI scheme. The investments received by the Noticee in the client bank account and the returns, if any, thereon were made from the client bank account only.

h. Initial investment made by the client in the client bank account

The Noticee failed to reply to the observation.

- i. The Noticee denies the content of Exhibit 2A, 2B, 2C, 2D, 2E, and 2F as these documents belong to third party entity which is not an intermediary in the capital market. On the pretext of demanding cooperation, the forensic auditor compelled the employees of the Noticee to scan and send unrelated documents of third-party entity from the Noticee's company email address. The source of the exhibits is unverified and unsubstantiated.

20.6.3 The Committee finds as under:

- a. The Noticee's contentions are not tenable as the Noticee itself shared the documents with the forensic auditor. Furthermore, the Noticee failed to provide any reply on the said exhibits along with supporting documents. In the absence of documentary evidence, the violation persists.
- b. As per Exchange Circular No. NSE/COMP/50957 dated January 7, 2022, engagement by Trading Members in activities/schemes indicating fixed/guaranteed/regular returns/capital protection is construed as non-compliance with Rule 8(3)(f) of SCRR. The Noticee violated the regulatory provision mentioned above by making regular pay-outs to the clients.

20.7 **Non-reporting of details of bank account to the Exchange**

20.7.1 Upon verification of the bank accounts of the Noticee, it is observed that the Noticee failed to disclose one bank account i.e. HDFC bank statement for account number 50200028873127 wherein transactions were executed for the period from January 1, 2018, to November 11, 2019.

20.7.2 In reply to the SCN-3, the Noticee submitted as under:

The non-disclosure of the bank account was due to a technical lapse which has not resulted into suppression of even a single transaction by the Noticee with the Exchange. The Noticee

operates the HDFC Bank A/c No. 50200028873127 even prior to obtaining the Exchange membership for doing their business with the Exchange. After obtaining membership of the Exchange, the Noticee paid the opening margin amount to NSE Clearing Ltd. on November 28, 2018, from the said bank account. Hence, it is a matter on record that the said account was well within the knowledge of the Exchange. Further, except payment of the said margin amount to the Exchange, no other transaction connected with Noticee's operations with the Exchange has been transacted through the said bank account. The said bank account was closed in November 2019 as it was non-operational since July 2019. The Noticee conducts all its transactions with the Exchange through another account with Axis Bank which is duly reported to the Exchange.

20.7.3 The Committee finds as under:

- a. The Noticee attributed the observation/violation to technical lapse.
- b. As per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, Trading Members are required to communicate the details of all existing bank accounts to stock exchanges in the format specified within one month from the date of this circular. Thus, the Noticee violated the regulatory provision mentioned above by failing to report the bank account to the Exchange.

20.8 **Discrepancy in computation of net worth**

20.8.1 Upon verification of the net worth certificate for the half year ended September 30, 2021, submitted by the Noticee, vis-à-vis, the trial balance, it is observed that the Noticee did not consider prepaid expenses and losses amounting to Rs.0.06 crore while calculating the net worth. The net worth computed by the Noticee is erroneous on account of incorrect accounting treatment in the books of accounts for trades payable of Rs.70.38 lakhs instead of Rs.2.56 crores.

20.8.2 In reply to the SCN-3, the Noticee submitted as under:

The discrepancies occurred due to oversight as the observation pertained to the Covid-19 pandemic period when the staff and auditors were unavailable. During the said period, the Exchange had relaxed the norms allowing the stockbrokers to submit unaudited reports. The Noticee was diligent enough to submit the final audited reports for the said accounting year in which no discrepancy was found.

20.8.3 The Committee finds as under:

- a. The Noticee attributed the observation/violation to oversight as the observation pertained to the Covid-19 pandemic period when the staff and auditors were unavailable.
- b. As per Exchange Circular No. NSE/COMP/49810 dated October 1, 2021, Trading Members of the Exchange are required to compute the net worth as per Dr. L.C. Gupta's net worth computation method. The Noticee violated the regulatory provisions mentioned above by incorrectly reporting the net worth.

20.9 **Offering referral schemes which are not as per the prescribed guidelines**

20.9.1 Upon verification of the imaged servers, emails, mobile and other devices, it is observed that the Noticee was offering incentives schemes such as shopping vouchers, electronic gadgets, vehicles to the clients for referring other clients to open demat accounts.

20.9.2 In reply to the SCN-3, the Noticee submitted as under:

The Noticee did not offer any scheme to its investors or to public at large. The Noticee neither received any amount from any of its clients nor made any pay-out to the clients under the alleged scheme at any point of time during its operations.

20.9.3 The Committee finds as under:

- a. *The Noticee claimed that it neither offered any scheme to its clients nor received any amount from any of its clients nor made any pay-out to the clients.*

However, the Noticee failed to provide an explanation to the observation and the exhibits. Hence, the violation persists.

- b. As per Exchange Circular No. NSE/INSP/43824 dated March 11, 2020, for a particular referring person, the rate of the incentive should be flat (i.e. not slab based) and a single rate should be applied. A Trading Member may have different referral incentive rates across different referring person.

20.10 Receipts and payments of funds from/to clients transacted through own bank account

20.10.1 Upon verification of the bank statement of the Noticee's bank accounts, it is observed that the funds were transferred among various bank accounts viz. client account to own account, own account to client account, Concunsmart Parivar account to own account, etc.

(Rs in crores)

Bank Account (From)	Bank Account (To)	Amount
Client bank account	Own / Proprietary bank account	8.99
Own / Proprietary bank account	Client bank account	7.48
Personal bank account of the Noticee's Director**	Own / Proprietary bank account	6.43
Own / Proprietary bank account	Personal account of Noticee's Director or Concunsmart Parivar's bank account	2.26
Concunsmart Parivar bank account	Personal account of Noticee's Director or Concunsmart Parivar's bank account	1

**It is noted that the source of the funds for the personal account of the Noticee's Director amounting to Rs.6.43 crores was received from Parivar bank account and was then credited to

"own/proprietary" bank accounts of the Noticee and further Rs.5.62 crores were transferred to the client bank account of Noticee and Rs.0.30 crore was transferred to other proprietary account of the Noticee.

20.10.2 In reply to the SCN-3, the Noticee submitted as under:

- a. The Noticee has no connection with Concusmart Parivar account. The transfer of funds between (a) personal account of the Noticee's director, (b) Noticee's own/proprietary bank account and (c) client bank account merely reflects a sequence of transactions wherein the Noticee's director provided financial assistance to the Noticee to trade through its proprietary bank account. The funds were in turn invested by the Noticee by transferring the funds to the client bank account. Similarly, the reverse transactions from (a) client bank account to (b) Noticee's own/proprietary bank account and then to (c) personal account of the Noticee's director, are reflective of return of funds in routine course of the business.
- b. As per Exchange Circular No. NSE/INSP/2016/33276 dated September 27, 2016, the transfer of funds between "Name of Stockbroker - Client Account" and "Name of Stockbroker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stockbroker - Client Account" to "Name of Stockbroker - Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stockbroker, etc. The excess fund transfer is the brokerage amount in compliance with the above-mentioned provision.

20.10.3 The Committee finds as under:

- a. *The Noticee contended that the transfer of funds is in the routine course of business.*

The Noticee failed to provide daily reconciliation statement and documentary evidence relating to the brokerage transfer.

In the absence of documentary evidence, the violation persists.

- b. As per Exchange Circular No. NSE/INSP/2016/33276 dated September 27, 2016, the transfer of funds between "Name of Stockbroker - Client Account" and "Name of Stockbroker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stockbroker - Client Account" to "Name of Stockbroker - Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, etc. For such transfer of funds, the stockbrokers shall maintain daily reconciliation statement clearly indicating the amount of funds transferred. The Noticee violated the regulatory provision mentioned above by failing to segregate the transactions between the client and own bank accounts.

20.11 **Inducing clients to execute trades**

20.11.1 Upon verification of the leaflets/PPT found at the Noticee's premises and imaging of assets, it is observed that in one of leaflets of schemes issued by the Noticee induces the clients to participate in the scheme. This is evident from the various terms and conditions that have been mentioned in the document which is designed to attract customers having home loans.

20.11.2 In reply to the SCN-3, the Noticee submitted as under:

The allegations are imaginary and not based on any fact which can be substantiated. The Noticee does not run any scheme of EMI or of other nature violative of the Rules of the Exchange.

20.11.3 The Committee finds as under:

- a. *The Noticee claimed that it does not run any scheme of EMI or of other nature.*

The Noticee failed to provide any reasonable explanation relating to appearance of Noticee's name on the leaflet, the violation persists.

- b. As per Exchange Circular No. NSE/INSP/51770 dated March 25, 2022, client shall not be subjected to any kind of trade inducement (including generating trade calls through the interactive voice response system) and the Trading Members shall ensure that all instructions for placement of orders are obtained from the respective client only.
21. Based on the records available with the Exchange and findings of the forensic audit report, it is proved beyond doubt that the Noticee offered fixed/excess pay-outs to clients and thereby demonstrated misconduct. The Committee notes that the Hon'ble Securities Appellate Tribunal, vide its order dated August 11, 2021, upheld the order dated July 14, 2021, passed by the Committee expelling Stampede Capital Limited *inter alia* for offering assured returns to investors. Since the assured return schemes have the potential to evolve into a serious risk for the investors, steps must be taken to prevent the Noticee from soliciting and collecting funds from investors for the assured return schemes. In the said circumstances, the continuance of membership of the Noticee with the Exchange is detrimental to the interest of investors in the securities market and, therefore, the Committee passed the following decision:

DECISION

22. The Noticee is hereby expelled from the membership of the Exchange under Rules 1 and 2 of Chapter IV of NSEIL Rules with immediate effect from the date of this 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: March 14, 2023