

**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 November 22, 2022**

In the matter of the Trading Member M/s. GSV Securities Private Limited

CORAM:

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

ALSO PRESENT:

Dr Dinesh Kumar Soni	- Senior Vice President – Regulatory
Ms. Renu Bhandari	- Vice President – Inspection

BACKGROUND

1. **M/s GSV Securities Private Limited ("GSV")** is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Market ("**CM**") and Futures & Options ("**F&O**") segments since January 2007.

LETTER OF OBSERVATION DATED AUGUST 25, 2021 ("LO")

2. The Exchange conducted a limited purpose inspection of the books of accounts and records of GSV to verify the data submitted under the Enhanced Supervision of Stockbrokers as of May 21, 2021, July 17, 2021, and July 19, 2021. Post-inspection, the Exchange issued LO to GSV for the observed non-compliances with the regulatory provisions. GSV replied to the LO on September 2, 2021.

SHOW-CAUSE NOTICE DATED FEBRUARY 2, 2022 ("SCN-1")

3. The Exchange conducted a limited purpose inspection of books of accounts and records of GSV for the period April 2020 to August 2021. Post-inspection, the

Exchange issued a show-cause notice dated February 2, 2022, for the observed non-compliances with the regulatory provisions. GSV, vide its letter dated February 14, 2022, replied to SCN-1.

INTERIM ORDER DATED MARCH 16, 2022

4. The Exchange, vide its email dated February 15, 2022, granted GSV with an opportunity for a personal hearing before the Committee in its meeting held on February 18, 2022. Mr. G Vishnuvardhan Reddy – Designated Director, on behalf of GSV, attended the personal hearing.
5. In view of the fixed/excess pay-outs to clients indicating assured returns, the Committee issued the interim order dated March 16, 2022, without going into the merits of other observations/violations alleged in the LO and SCN-1. The interim directions were as under:
 - 5.1 GSV shall cease to engage in activities that provide assured returns to the clients with immediate effect and provide documentary evidence to the Exchange.
 - 5.2 GSV is prohibited from registering new clients with immediate effect until further direction.
6. The Exchange, vide its email dated March 16, 2022, forwarded the said interim order to GSV.

SHOW-CAUSE NOTICE DATED SEPTEMBER 21, 2022 ("SCN-2")

7. In view of the irregularities concerning fixed/excess pay-outs to clients, the Exchange appointed a forensic auditor to conduct forensic audit of books and records of GSV. The period of review was January 1, 2019, to February 28, 2022. Post-audit, the Exchange issued a supplementary show-cause notice dated September 21, 2022, for the observed additional non-compliances. GSV, vide its letter dated October 10, 2022, replied to SCN-2.

INSPECTION/FORENSIC AUDIT OBSERVATIONS/VIOLATIONS

8. The observations/violations alleged in the LO, SCN-1 and SCN-2 are summarized hereunder:

LO

- 8.1 Incorrect data submitted in the weekly client-level cash and cash equivalent balances in 134 instances involving Rs.1.93 crores as of May 21, 2021
- 8.2 Incorrect data submitted in the weekly holding statement in 7 instances involving 3 scrips amounting to Rs.3,072/- as of July 17, 2021

SCN-1

- 8.3 Fixed/excess pay-outs to 14 clients in 86 instances in the range of Rs.10,000/- to Rs.50 lakhs amounting to Rs.6.86 crores and excess pay-outs to 6 clients in 7 instances amounting to Rs.7.86 lakhs despite debit balance in the clients' ledgers
- 8.4 Shortfall in net worth to the extent of Rs.23.35 lakhs as of March 31, 2021
- 8.5 Non-settlement of funds of 72 inactive clients involving Rs.17.24 lakhs as of July 19, 2021
- 8.6 Incorrect data submitted in the weekly holding statement in 3 out of 58 scrips selected for sample scrutiny as of July 17, 2021
- 8.7 Incorrect data submitted in the weekly client-level cash and cash equivalent balances in 443 out of 1,224 instances selected for sample scrutiny involving Rs.1.15 lakhs as of March 31, 2021
- 8.8 Non-reporting of 1 out 18 bank accounts selected for sample scrutiny to the Exchange
- 8.9 Non-maintenance of appropriate evidence in respect of orders placed by 12 clients

SCN-2

- 8.10 Fixed pay-outs to 19 out of 149 clients selected for sample scrutiny involving Rs.14.31 crores and excess pay-outs to 7 out of 149 clients selected for sample scrutiny involving Rs.3.43 lakhs
- 8.11 Potential misappropriation of clients' funds involving Rs.4.86 lakhs and sharing of brokerage involving Rs.46.25 lakhs
- 8.12 Non-maintenance of appropriate evidence in respect of order placed by clients in 75 instances pertaining to 23 clients
- 8.13 Discrepancies in email ID, i.e. registered emails of 236 clients with Gmail or Yahoo email ID starting with "GSV" or "GSVSEC"
- 8.14 Credit bill passed in the client ledger other than the traded UCC in the case of 6 instances of 2 clients involving Rs.0.88 lakh
- 8.15 Excess collection of prepaid brokerages in 16 instances of 5 clients involving Rs.12.49 lakhs; Incorporation of clause in the declaration form which is violative of the Byelaws of the Exchange
- 8.16 Shortfall in securities in 19 instances involving Rs.1.93 lakhs as of February 28, 2022
- 8.17 Misuse of clients' securities, i.e. (a) securities worth Rs.18.89 lakhs transferred to the client without corresponding trade and not recorded in the books of GSV (b) pay-in obligation of a corporate client account settled from director's accounts involving Rs.2 lakhs
- 8.18 Incorrect data reported in the weekly client-level cash and cash equivalent balances in 67 instances in the range of (-ve) Rs.50 lakhs to Rs.27.39 lakhs as of February 28, 2022
- 8.19 Shortfall in net worth to the extent of Rs.18.53 lakhs as of February 28,

2022

8.20 Non-fulfilment of fit and proper criteria by the Promoter

REGULATORY PROVISIONS

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

9.1 **Incorrect data submitted in the weekly client-level cash and cash equivalent balances**

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 proposed submission of the following data/details:-

1. *Day-wise upload of client level cash & cash equivalent balances on a weekly basis for all calendar days of that week except Sunday (i.e. Monday to Saturday);*
2.

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

9.2 **Incorrect data submitted in the weekly holding statement**

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.

9.3 **Fixed/excess pay-outs to clients**

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.*

9.4 **Shortfall in net worth**

Rule 33 of Chapter III of the Rules of the Exchange

Continued Admittance

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.

9.5 **Non-settlement of clients' funds**

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 amount shall not be applicable

in 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.

9.6 Incorrect data submitted in the weekly holding statement

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

All Members are 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 is given in Annexure-1 to the said circular.

9.7 Non-reporting of bank account

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

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>

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

- a. Regulation 3.2.1 of NSEIL Regulations (CM Segment) & 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 of 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.

b. Exchange Circular No. NSE/INSP/37301 dated March 26, 2018

To further strengthen regulatory provisions against un-authorized trades and also to harmonize the requirements across markets, it has now been decided that all brokers shall execute trades of clients only after keeping evidence of the client placing such order, which could be, inter alia, in the form of:

- a. *Physical record written & signed by client,*
- b. *Telephone recording,*
- c. *Email from authorized email id,*
- d. *Log for internet transactions,*
- e. *Record of messages through mobile phones,*
- f. *Any other legally verifiable record.*

When a dispute arises, the broker shall produce the above-mentioned records for the disputed trades. However, for exceptional cases such as technical failure etc. where broker fails to produce order placing evidence, the broker shall justify with reasons for the same and depending upon merit of the same, other appropriate evidence like post trade confirmation by client, receipt/payment of funds/ securities by client in respect of disputed trade, etc. shall also be considered.

9.9 **Potential misappropriation of clients' funds and sharing of brokerage**

Byelaw 33 of Chapter IX of NSEIL Byelaws

Sharing of Brokerage

(33) (a) *A trading member may not share brokerage with a person who:*

- (i) *is one for or with whom trading members are forbidden to do business under the Bye Laws, Rules and Regulations of the Exchange;*
- (ii) *is a trading member or employee in the employment of another trading member;*

(b) *Irrespective of any arrangement for the sharing of brokerage with any person, the trading member shall be directly and wholly liable to every other member with whom such trading member effects any deal on the Exchange.*

9.10 **Discrepancies in the email ID**

Exchange Circular No. NSE/INVG/21841 dated October 4, 2012

All Trading Members are requested to review the details of the clients uploaded on UCI Online pertaining to their mobile number and / or email address and update the same wherever necessary. Trading Members are hereby requested to take utmost care while uploading client details including mobile number and email address on UCI - ONLINE.

9.11 **Credit bill passed in the client ledger other than the traded UCC**

Regulation 6.1.5 (e) of NSEIL Regulation - (CM Segment)

The Trading Members shall keep a separate ledger account for each client in respect of the transactions on the Exchange and shall not mingle such account with the account of the client in respect of transactions of any other stock exchange or any other transaction which the Trading Member may enter into with such client.

9.12 **Excess collection of prepaid brokerage and non-adherence of the terms in the pre-paid brokerage declaration form**

Exchange Circular No. NSE/INSP/26252 dated March 24, 2014

The terms & conditions of schemes relating to advance collection of funds towards brokerage and other allied services must be properly documented and positive confirmation of the clients for availing such services/schemes be obtained.

Where the funds are collected in advance under the pre-paid schemes, the broker must ensure that the brokerage charged should not exceed the amount specified under the Exchange Bye laws.

9.13 **Shortfall in securities**

Exchange Circular No. NSE/INSP/29096 dated March 11, 2015

Members are advised to ensure that the funds & securities available in the

client banks and client beneficiary accounts together with balances available with clearing member and funds with clearing corporation are not less than the funds and securities payable to the client at all times.

Members are also advised to reconcile client beneficiary account/s and the register of securities on a quarterly basis and maintain complete audit trail & documentation of such reconciliation.

9.14 **Misuse of clients' securities**

Regulation 4.5.3 (e) of NSEIL Regulations (CM and F&O Segments)

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

9.15 **Non-fulfilment of fit and proper criteria by the promoter**

Securities and Exchange Board of India Intermediaries Regulations, 2008

Schedule II

(3) *For the purpose of determining as to whether any person is a 'fit and proper person', the Board may take into account any criteria as it deems fit, including but not limited to the following:*

(a) *integrity, honesty, ethical behavior, reputation, fairness and character of the person;*

PRESENT PROCEEDINGS BEFORE MCSGFC

10. The Exchange, vide its email dated November 16, 2022, granted GSV with an opportunity for a personal hearing before the Committee. On behalf of GSV, Mr. Vishnuvardhan Reddy – Designated Director and Mr. Rajesh Jopat – Director attended the personal hearing and made the following oral submissions before the Committee:

10.1 **Fixed/excess pay-outs to clients**

GSV made pay-outs to the clients only after the said clients sold the shares and made early pay-in to the Exchange. GSV provided contract notes issued to the said clients to the Exchange. GSV did not make any

fixed pay-outs to the clients.

During the Covid-19 pandemic period, GSV made pay-outs to a few clients only upon their written request on the ground of medical emergency. However, in the past one year, GSV did not make any request-based pay-out to the clients. Further, in the past one year, GSV stopped collecting prepaid brokerage from the clients.

10.2 Shortfall in net worth

The shortfall in net worth was as of February 28, 2022. GSV recouped the shortfall in net worth i.e. the net worth is Rs.2.30 crores as of March 31, 2022.

10.3 Non-fulfilment of fit and proper criteria by the Promoter

GSV transferred the shares from Mr. Jonna Venakta Tirupati Rao to Mr. G. Vishnuvardhan Reddy and Mr. Rajesh Jopat, Directors of GSV.

CONSIDERATION & FINDINGS

11. The observations/alleged violations, the reply of GSV and the findings of the Committee are as under:

LO

11.1 **Incorrect data reported in the weekly client-level cash and cash equivalent balances**

11.1.1 Upon verification of the data submitted by GSV in the weekly client-level cash and cash equivalent balances vis-à-vis the trial balance as of May 21, 2021, it is observed that GSV incorrectly reported the ledger balances in 134 instances involving Rs.1.93 crores.

11.1.2 In reply to the LoF, GSV submitted as under:

Due to back-office upgradation process, there were some un-updated patch files in the back-office which led to differences in the report submitted to the Exchange. GSV communicated the

issue to its software vendor and got it rectified. GSV provided the updated files from the back-office to the Exchange for verification.

11.1.3 The Committee finds as under:

- a. GSV attributed the observation/violation to a back-office software error.
- b. As per Exchange Circular No. NSE/INSP/43926 dated March 23, 2020, the Trading Members are required to upload day-wise client-level cash and cash equivalent balances and bank balances of all bank accounts weekly. The said circular was put in place to enhance monitoring and consider the prohibition on pledging client securities for raising funds. The Trading Members must verify the data before submission to the Exchange. GSV violated the regulatory provision mentioned above by incorrectly reporting the data in the weekly client-level cash and cash equivalent balances.

11.2 **Incorrect data submitted in the weekly holding statement**

11.2.1 Upon verification of the weekly holding statement submitted by GSV vis-à-vis the demat account holding statement, it is observed that GSV submitted incorrect data in the weekly holding statement in 7 instances involving 3 scrips amounting to Rs.3,072/- as of July 17, 2021. The details are as under:

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

11.2.2 In reply to the LO, GSV submitted as under:

Due to a back-office system error, shares of fractional quantity were not considered while reporting. GSV communicated the issue to its software vendor.

11.2.3 The Committee finds as under:

- a. GSV attributed the observation/violation to a back-office software error.
- b. As per Exchange Circular No. NSE/INSP/39855 dated January 3, 2019, all the Trading Members are 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 subsequent week through the Inspection module in the Member portal. GSV violated the regulatory provision mentioned above by incorrectly reporting the data in the weekly holding statement to the Exchange.

SCN-1

11.3 **Fixed/excess pay-outs to clients**

11.3.1 The Exchange verified the bank ledgers, bank statements, client ledgers and pay-out entries for the inspection period. Upon verification, the Exchange observed that GSV made fixed and weekly pay-outs to 14 clients in 86 instances in the range of Rs.10,000/- to Rs.50 lakhs amounting to Rs.6.86 crores. For instance, GSV made fixed weekly pay-outs of Rs.6 lakhs and Rs.10 lakhs to Mr Harish Kumar Gangisetty (Client Code HD0349) and Haseenarao Apparel (OPC) Private Limited (Client Code HYD039), in 6 and 11 instances, respectively.

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

11.3.2 In reply to the SCN-1, GSV submitted as under:

- a. **Fixed pay-outs to 14 clients amounting to Rs.6.86 crores**

GSV did not make any fixed/excess pay-outs to the clients. The observed clients trade in weekly options on Thursday and generally deposit the funds on Wednesday. After depositing the funds on Wednesday as per their requirements, the clients

withdraw the funds on Friday. There is no arrangement between GSV and the clients for fixed returns.

- b. Excess pay-outs to 6 clients amounting to Rs.7.86 lakhs despite debit balance in the clients' ledgers

Upon receiving instruction from 6 clients, GSV sold the clients' securities and made early payment to the said clients. The payment was made only after selling the securities for equal amounts. It was a one-off incident and not a normal practice. GSV is not engaged in any business other than securities involving a personal financial liability. The funds of other clients were not used for such transactions; hence, there is no misuse of clients' funds.

11.3.3 The Committee finds as under:

- a. Fixed pay-outs to 14 clients amounting to Rs.6.86 crores

GSV contended that the observed clients traded in weekly options on Thursday, deposited the funds with GSV on Wednesday and withdrew the funds on Friday as per the clients' requirement.

- 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.

The clients traded in weekly options on Thursday, deposited the funds with GSV on Wednesday and withdrew the funds on Friday as per the clients' requirement. However, this is not acceptable as 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.

- ii. 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. Excess pay-outs to 6 clients amounting to Rs.7.86 lakhs despite debit balance in the clients' ledgers

GSV accepted the observation/alleged violation and claimed that it was a one-time exception.

- c. As per Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957, GSV is prohibited from engaging as a principal in a business other than securities involving personal financial liability. GSV violated the regulatory provisions mentioned above by making fixed/excess pay-outs to its clients.

11.4 **Shortfall in net worth**

11.4.1 The Exchange verified the net worth certificate submitted by GSV as of March 31, 2021. Upon verification, the Exchange observed that GSV reported a net worth of Rs.76.65 lakhs as against the net worth of Rs.1 crore prescribed for GSV by the Exchange, thereby resulting in a shortfall of Rs.23.35 lakhs.

11.4.2 In reply to the SCN-1, GSV submitted as under:

- a. GSV submitted net worth certificate to the Exchange along with the calculation. The net worth was calculated by its statutory auditor as per Dr. L. C. Gupta's net worth computation method.
- b. Upon Exchange's intimation to GSV that certain entries are required to be excluded while computing the net worth, GSV submitted a revised net worth certificate certifying a net worth of Rs.1.72 crores as of June 30, 2021, which is above the minimum prescribed net worth of Rs.1 crore.

11.4.3 The Committee finds as under:

- a. Upon verification of the revised net worth certificate, it is observed that GSV recouped the shortfall in net worth as of June 30, 2021. However, post inspection compliance does not absolve GSV from the violation committed.
- b. As per Rule 33 of Chapter III of NSEIL Rules, one of the conditions and requirements for continued admittance to trading membership is maintaining a minimum net worth. Thus, GSV violated the regulatory provisions mentioned above by failing to maintain the minimum prescribed net worth.

11.5 **Non-settlement of clients' funds**

11.5.1 The Exchange verified the settlement declaration, register of securities, clients' ledgers, trial balance and Exchange's records as of July 19, 2021. Upon verification, it is observed that GSV failed to settle the funds of 72 inactive clients selected for sample scrutiny involving Rs.17.24 lakhs.

11.5.2 In reply to the SCN-1, GSV submitted as under:

- a. Only 2 out of 72 clients are inactive, i.e. Client Code HDC007 and BNG011. One client account is blocked by the Exchange and the other client account is a new account wherein the client has not traded. Hence, the observation is incorrect. GSV, vide its email dated August 11, 2021, provided the details of 70 active clients along with last trade date to the Exchange in support of its claim.
- b. GSV withheld the pay-outs up to Rs.2,000/- in the case of 52 clients to adjust the said amount towards demat charges payable by the said clients at the end of the quarter.
- c. In the case of few other clients, GSV did not settle the funds due to the Covid-19 pandemic situation as the staff was working from home which led to difficulty in accessing the information and records.

11.5.3 The Committee finds as under:

- a. *GSV contended that only 2 out of 72 clients are inactive.*

Upon verification of the trade data of the top 10 clients, it is observed that all the top 10 clients have not traded for last three months. Hence, GSV's contention that all the clients' accounts are active clients except 2 is not acceptable.

- b. *GSV claimed to have withheld the pay-outs to 52 clients to adjust the same towards demat charges payable by the said clients.*

As per Exchange Circular No. NSE/INSP/24849 dated October 29, 2013, a Trading Member may retain an amount of up to Rs.10,000/- (net amount across segment and across stock exchanges) to address the administrative/operational difficulties in settling the accounts of regular trading clients (active clients), after taking written consent of the client. In the instant case, the observed clients are inactive clients. Hence, GSV's contention is not acceptable, and the violation persists.

- c. *GSV claimed that out of the 2 inactive clients, one client account is blocked by the Exchange and the other client account is a new account.*

GSV failed to specify details as to which client code is blocked by which stock exchange. Hence, the violation persists.

- 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. Thus, GSV violated the regulatory provisions mentioned above by failing to settle clients' funds.

11.6 **Incorrect data submitted in the weekly holding statement**

11.6.1 The Exchange verified the weekly holding statement submitted by GSV vis-à-vis the demat account holding statement as of July 17, 2021. Upon verification, the Exchange observed that GSV submitted incorrect data to the Exchange in 3 out of 58 scrips selected for sample scrutiny as under:

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

11.6.2 In reply to the SCN-1, GSV submitted as under:

The mismatch occurred on account of consideration of credit/debit balance with CDSL due to a technical issue. GSV, vide its email dated September 2, 2021, submitted the reconciled data along with the supporting documents to the Exchange for verification. GSV provided a copy of the said email.

11.6.3 The Committee finds as under:

- a. GSV attributed the observation/violation to a technical issue.
- b. As per Exchange Circular No. NSE/INSP/39855 dated January 3, 2018, all Trading Members are 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. Thus, GSV violated the regulatory provisions mentioned above by submitting incorrect data in the weekly holding statement to the Exchange.

11.7 **Incorrect data submitted in the weekly client-level cash and cash equivalent balances**

11.7.1 The Exchange verified the data reported by GSV towards weekly client-level cash and cash equivalent balances vis-à-vis the client ledgers and trial balance as of March 31, 2021. Upon verification, the Exchange observed that GSV reported incorrect ledger balance in 443 out of 1,224 instances selected for sample scrutiny amounting to Rs.1.15 lakhs.

11.7.2 In reply to the SCN-1, GSV submitted as under:

GSV, vide its email dated June 25, 2021, informed the Exchange that the observed mismatch in balances occurred due to consideration of cash equivalent balances on March 26, 2021, and balances as per debit/credit on March 31, 2021. There was a technical error during extraction of data from back-office and it re-submitted the correct data to the Exchange. GSV provided a copy of the said email. The mismatch occurred due to a technical error in the system. GSV provided correct position of the ledger balance as of March 31, 2021, to the Exchange for verification.

11.7.3 The Committee finds as under:

- a. GSV attributed the observation/violation to a technical error.
- b. As per Exchange Circular No. NSE/INSP/44478 dated May 27, 2020, the Trading Members are required to submit client-level cash and cash equivalent balances data on a consolidated basis across all Exchanges. The data shall be prepared and submitted for all the clients irrespective of the Exchange on which the clients are trading and the same shall be reported to all the exchanges. Thus, GSV violated the regulatory provision mentioned above by submitting incorrect data towards client-level cash and cash equivalent balances and bank account balances.

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

11.8.1 The Exchange verified the bank account details submitted by GSV under the Enhanced Supervision of Stockbrokers vis-à-vis the back-office records. Upon verification, the Exchange observed that GSV failed to report 1 out of 18 bank accounts selected for sample scrutiny.

11.8.2 In reply to the SCN-1, GSV submitted as under:

GSV has a total of 18 bank accounts. GSV, vide its email dated September 8, 2021, submitted the details of 17 bank accounts to the Exchange and inadvertently missed to report 1 bank account (HDFC Bank account used for mutual fund transaction settlements) due to oversight. GSV provided the details of the said account to the Exchange for verification.

11.8.3 The Committee finds as under:

- a. GSV attributed the observation/violation to oversight.
- b. As per Exchange Circular No. NSE/INSP/33276 dated September 26, 2016, the Trading Members shall inform the

stock exchanges of existing and new bank accounts. Thus, GSV violated the regulatory provision mentioned above by failing to report bank account to the Exchange.

11.9 **Non-maintenance of appropriate evidence in respect of orders placed by clients**

11.9.1 The Exchange verified the order placement mechanism maintained by GSV at its back-office. Upon verification, the Exchange observed that GSV failed to maintain appropriate evidence in respect of orders placed by all 12 clients selected for sample scrutiny.

11.9.2 In reply to the SCN-1, GSV submitted as under:

GSV submitted emails and recordings of confirmation in respect of the orders placed by its clients to the Exchange during inspection. GSV has a proper system in place which maintains appropriate evidence in respect of the orders placed by its clients. The observed instances pertain to the Covid-19 pandemic period. Due to the restrictions imposed and certain technical issues, all orders placed were not recorded.

11.9.3 The Committee finds as under:

- a. GSV attributed the observation/violation to the Covid-19 pandemic situation and technical issues.
- b. As per Regulation 3.2.1 of NSEIL Regulations (CM Segment), Regulation 3.4.1 of NSEIL Regulations (F&O Segment) and Exchange Circular No. NSE/INSP/37301 dated March 26, 2018, the 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 of the completion or otherwise of these orders thereof. Thus, GSV violated the regulatory provisions mentioned above by failing to maintain appropriate evidence of the orders placed by its clients.

SCN-2**11.10 Fixed/excess pay-outs to clients**

11.10.1 The irregularities observed are as under:

- a. Upon analysis of financial ledgers of 19 out of 149 clients with two or more payments of same amount for the review period, it is observed that GSV made periodic fixed pay-outs involving Rs.14.31 crores. Out of the 19 clients, 14 clients are covered in SCN-1. Furthermore, in the case of 17 out of 19 clients, it is observed that periodic pay-outs were made in the range of Rs.12,500/- to Rs.50 lakhs involving Rs.12.50 crores.
- b. Further, it is observed that GSV made excess pay-outs to 7 clients involving fund pay-out of Rs.3.43 lakhs despite insufficient balances in the clients' ledger. Post fund pay-out, the ledgers are having a cumulative debit balance of Rs.7.99 lakhs.
- c. It is observed that the period fixed pay-outs to 19 clients amounting to Rs.14.31 crores are approximately 86% of such pay-outs to 149 clients amounting to Rs.16.70 crores.
- d. Complaint of fixed return scheme against GSV

An email dated December 20, 2021, sent by the client Mr. Siddanathi Krishna Prasad (Client Code - HYD209) to GSV, alleged a fixed monthly pay-out of Rs.7,500/- and unauthorized trades executed in his account. Mr. Prasad stated in the email that "the account is purely taken on the agreement of doing profitable transactions and receive a minimum pay-out of Rs.7,500/- per month". Mr. Prasad further alleged that he has not received any pay-out from GSV and demanded GSV to return the invested principal amount of Rs.5 lakhs.

11.10.2 In reply to the SCN-2, GSV submitted as under:

- a. Fixed periodic payments to 19 clients involving Rs.14.31 crores

GSV released the pay-outs based on the request received

from the client by way of email/signed pay-out request forms. Further, these are not fixed pay-outs. The ledgers of the clients show different figures of pay-outs on different dates.

b. Excess pay-outs to 7 clients involving fund pay-out amount of Rs.3.43 lakhs

GSV released the pay-outs against early pay-in of securities based on exceptional and humanitarian grounds i.e. the client's personal/medical emergencies. GSV provided early pay-in statements and stock selling contract notes for verification.

c. Complaint of fixed return scheme against GSV

GSV did not make pay-out in this account and has not engaged in any fixed pay-out arrangement with the client Mr. Siddanathi Krishna Prasad. Further, it is observed from the client ledger that the said client did not invest Rs.5 lakhs with GSV.

11.10.3 The Committee finds as under:

a. Fixed periodic pay-outs to 19 clients amounting to Rs.14.31 crores

GSV contended that the pay-outs were released based on the request received from the clients by way of email/signed pay-out request forms. These are not instances of fixed pay-outs as the client ledgers show different figures of pay-outs on different dates.

Upon verification of the emails for pay-out request, it is observed that GSV received the emails for pay-out request either on the day of pay-outs or 1 day prior to the pay-out in 7 out of 159 instances. In the remaining 152 instances, GSV's contention that the pay-outs were initiated based on the clients' request is not acceptable since there was an inordinate gap between the date of the email for pay-out request and release of pay-out. As per Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, the Trading Members are required to transfer funds within 1 working day from the request if the same are lying with the Trading

Member.

GSV contended that the pay-outs are not fixed pay-outs, and the ledgers of the clients show different figures of pay-outs on different dates.

Upon verification of the client ledgers provided by GSV, it is observed that all the fixed pay-outs tally with the ledgers. Hence, the contention of GSV is not acceptable, and the violation persists.

Furthermore, 10 out of 19 clients are the erstwhile clients of Stampede who received fixed pay-outs from Stampede till March 31, 2021. Post-expulsion of Stampede on July 14, 2021, the said clients received fixed pay-outs from GSV, thereby demonstrating the relationship between GSV and Stampede in relation to fixed pay-outs. The details the 10 clients are as under:

Sr. No.	Name	PAN	Client Code (GSV)	Client Code (Stampede)
1.	Kumar Exports	AAAFK8739L	DDP005	CH0008
2.	Surindra Sood	ADNPS1281P	HYD247	CH0010
3.	Preet Mahinder Singh	ANLPS3772R	HYD252	CH0002
4.	Amit Bajaj HUF	AAQHA1295P	HD0241	HAB001
5.	Manoj Bajaj	AGYPB1310N	HYD251	CH0015
6.	Arun Kumar Sood	AFIPS5564C	HYD003	CH0019
7.	Ramesh Chander Gulati	ACBPG7219A	HYD253	CH0003
8.	Ram Kumar	AGUPB1256F	HYD254	CH0004
9.	Ajay Kumar Sood	AFIPS5559P	HYD256	CH0009
10.	Anju Bajaj	AJRPB8326J	HYD255	CH0014

b. Excess pay-outs to 7 clients involving fund pay-outs of Rs.3.43 lakhs

GSV contended that the pay-outs were released against early pay-in of securities considering the clients' medical emergency. GSV, vide its email dated March 25, 2022, confirmed that it will refrain from such practice in future. GSV accepted the observation/violation.

c. Complaint of fixed return scheme against GSV

GSV contended that it did not enter into any fixed pay-out arrangement with the client Mr. Siddanathi Krishna Prasad. Upon verification of the client's ledger, it is observed that there is no receipt of payment from the client. GSV, vide its email dated November 25, 2022, to the client, refuted the allegation of assured return but remained silent about receipt of Rs.5 lakhs from the client.

d. As per Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957, a Trading Member is prohibited from engaging as a principal in a business other than securities. GSV violated the regulatory provisions mentioned above by making fixed/excess pay-outs to clients.

11.11 Potential misappropriation of clients' funds and sharing of brokerage

11.11.1 Upon review of the details of transaction of GSV with related party or old promoter group, it is observed that GSV was dealing with Stampede and its related entities. Upon further review of the annual report of Stampede for the financial year ended March 31, 2021, it is observed that Stampede recorded a brokerage income of Rs.46.25 lakhs received from GSV. The verification of the audited financial statements of GSV as of March 31, 2021, indicated that the same amount of Rs.46.25 lakhs was shown as short-term loans and advances receivable from Stampede. This transaction was later recorded as commission paid to Stampede through two journal voucher entries of Rs.46.25 lakhs and Rs.8.66 lakhs on June 30, 2021. It is observed that all the bank receipts and payment transactions with Stampede were executed through own bank account of GSV. This indicates that GSV was dealing with other Trading Member and there was an arrangement in place for sharing of brokerage between Stampede and Noticee.

Upon further review of the electronically stored information recovered from the computer system of Mr. K Srinivas Rao (Noticee's accountant), two Microsoft excel spreadsheets, titled 'Stampede Calculation Sheet Jan 2021' and 'Stampede Calculation Sheet Feb 2021' were retrieved. The spreadsheets

specified the details of the total profit earned by Stampede's clients, i.e., Rs.2.92 lakhs in January 2021, and Rs.1.94 lakhs in February 2021. As per the details mentioned in the spreadsheet, total profit was first utilized for covering the clients' profit share ("client min commitment") and the remaining profit amount was shared between Stampede and GSV in the ratio of 30:70. This transaction indicates potential misuse of funds by GSV favoring Stampede.

11.11.2 In reply to the SCN-2, GSV submitted as under:

The transaction pertained to sharing of brokerage to the remisier for business done by it and not for sharing of profit.

11.11.3 The Committee finds as under:

a. *GSV contended that the observed instances pertain to sharing of brokerage and not profit with the remisier (Stampede) for business done by it.*

GSV's contention is not acceptable.

b. As per Rule 20 (e) of Chapter IV of NSEIL Rules, no Trading Member shall transact business for or with or share brokerage with the expelled Trading Member except with the previous permission of the Relevant Authority. Furthermore, as per Byelaw 33 of Chapter IX of NSEIL Byelaws, a Trading Member may not share brokerage with a person who is one for or with whom Trading Members are forbidden to do business under the Byelaws, Rules, and Regulations of the Exchange or who is a Trading Member or employee in the employment of another Trading Member. GSV violated the regulatory provision mentioned above by entering into an arrangement of sharing of brokerage.

11.12 **Non-maintenance of appropriate evidence in respect of order placed by clients**

11.12.1 Upon verification of the order placement mechanism maintained

by GSV, it is observed that GSV failed to maintain appropriate evidence in respect of the pre-trade confirmation by the clients in the CM segment in 75 instances of 23 clients.

11.12.2 In reply to the SCN-2, GSV submitted as under:

During the Covid-19 pandemic situation, the staff worked from home where the call recording facility was not available. There was no support from vendors with respect to recording facilities. In view of the Covid-19 pandemic and subsequent lockdown, SEBI provided relaxation in timeline for compliance with the requirement of maintenance of call recordings of orders/instructions received from clients, from time to time.

11.12.3 The Committee finds as under:

- a. GSV attributed the observation to difficulties faced during the Covid-19 pandemic situation.
- b. As per Regulation 3.2.1 of NSEIL Regulations (CM Segment), Regulation 3.4.1 of NSEIL Regulations (F&O Segment) and Exchange Circular No. NSE/INSP/37301 dated March 26, 2018, the 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 of the completion or otherwise of these orders thereof. Thus, GSV violated the regulatory provisions mentioned above by failing to maintain appropriate evidence of the orders placed by its clients.

11.13 **Discrepancies in the email ID**

11.13.1 Upon review of the electronically stored information, the following discrepancies were observed indicating potential manipulation of the clients' registered email IDs:

- a. On verification of 8,882 undelivered emails pertaining to the statement of accounts, transaction statements, and change in contact details sent to the clients, it is observed that undelivered emails did not have the recipient's email IDs,

therefore clients with potential email IDs could not be ascertained.

- b. On verification of client master, it is observed that 236 clients were registered with Gmail or Yahoo email IDs starting with "GSV" or "GSVSEC".

11.13.2 In reply to the SCN-1, GSV submitted as under:

- a. Undelivered emails did not have the recipient's email ID, therefore clients with potential email ID could not be ascertained

GSV issued physical intimation to all the clients to update the KYC details. Few of the emails were undelivered. In such cases, GSV sent physical contract notes to the clients.

- b. 236 clients were registered with Gmail or Yahoo email ID starting with "GSV" or "GSVSEC"

All the accounts were opened long back, and the email IDs were updated during the account opening process. The accounts were opened by the previous management prior to July 1, 2019. GSV issued physical letter via courier to the clients to update their contact details. Most of the observed accounts are closed.

11.13.3 The Committee finds as under:

- a. Undelivered emails did not have the recipient's email ID, therefore, clients with potential email ID could not be ascertained

GSV contended that it issued the letters physically to its clients to update the KYC. In cases where the emails bounced, it issued the contract notes physically.

GSV failed to provide proof of delivery. In the absence of documentary evidence, the violation persists.

- b. 236 clients were registered with Gmail or Yahoo email IDs starting with "GSV" or "GSVSEC"

GSV contended that these are old accounts opened by its previous management and it issued letters physically to the clients to update their contact details.

GSV failed to provide proof of delivery of the letters. In the absence of documentary evidence, the violation persists.

- c. As per Exchange Circular No. NSE/INVG/21841 dated October 4, 2012, all Trading Members are required to review the details of the clients uploaded on UCI Online pertaining to their mobile number and / or email address and update the same wherever necessary. Furthermore, as per Exchange Circular No. NSE/INSP/6623 dated September 9, 2005, wherever the electronic contract notes have not been delivered to the client or been rejected (bouncing of emails), the Trading Member shall send a physical contract note to the client within the stipulated time and maintain the proof of delivery of such physical contract notes. GSV violated the regulatory provision mentioned above by failing to send statement of accounts, transaction statement, and other relevant information.

11.14 **Credit bill passed in the client ledger other than the traded UCC**

11.14.1 Based on the forensic audit report, it is observed that GSV passed credit bills in the ledgers other than the traded UCC in 6 instances of 2 clients involving Rs.87,609/-.

11.14.2 In reply to the SCN-2, GSV submitted as under:

This is UCC only. The previous management/directors of GSV used this system to identify those clients who will not do any business in future by prefixing 'Z' in front of the client code in the back-office.

11.14.3 The Committee finds as under:

GSV contended that the observed instances pertain to clients

with prefix 'Z' before the client codes. GSV's contention is not acceptable as it is required to mention the UCC allotted to the client rather than adding prefix 'Z'.

11.15 Excess collection of prepaid brokerages and non-adherence of the terms in the pre-paid brokerage declaration form

11.15.1 Based on the external audit report, it is observed that GSV collected excess brokerage and failed to reverse advance brokerage in 16 instances pertaining to 5 clients amounting to Rs.12.49 lakhs. Furthermore, upon verification of terms and conditions of the declaration form, it is observed that GSV is offering a refund of advance brokerage or brokerage generated whichever is lower on 5th of every month.

11.15.2 In reply to the SCN-2, GSV submitted as under:

As the time lapsed for the prepaid scheme, GSV booked the revenue and paid the GST charges. GSV informed the same to the clients.

11.15.3 The Committee finds as under:

a. *GSV contended that as time lapsed for prepaid scheme, GSV booked the revenue, paid the GST charges, and informed the same to the clients. GSV further contended that the prepaid forms are signed by the clients, and they are aware about the underline terms and conditions.*

However, GSV failed to adhere to the terms of the pre-paid brokerage declaration form by not refunding the advance brokerage or brokerage generated whichever is lower on 5th of every month. Hence, the violation persists.

b. As per Exchange Circular No. NSE/INSP/26252 dated March 24, 2014, the Trading Members are required to properly document the terms and conditions of schemes relating to advance collection of funds towards brokerage and other allied services and obtain positive confirmation of the clients

for availing such services/schemes. Further, where the funds are collected in advance under the prepaid schemes, the broker must ensure that the brokerage charged should not exceed the amount specified under the Exchange Byelaws. GSV violated the regulatory provision mentioned above by charging excess brokerage and failing to reverse advance brokerage charged from the clients.

11.16 Shortfall in securities

11.16.1 Upon verification of the register of securities vis-à-vis the demat account holdings, it is observed that GSV had a shortfall of clients' securities in 19 instances involving Rs.1.93 lakhs as of February 28, 2022.

(Rs in lakhs)

Particulars	Balance as per recomputed register of securities	Balance reported by GSV as per demat accounts	Difference	Netting off payable and receivable	Shortfall in securities
Securities payable	31.41	8.56	22.85	20.91	1.94

11.16.2 In reply to the SCN-2, GSV submitted as under:

All the observed transactions are auction close-out transactions wherein the clients received funds instead of securities from the Exchange itself.

11.16.3 The Committee finds as under:

a. *GSV contended that all the observed transactions are auction close-out transactions wherein the clients received funds instead of securities from the Exchange and the securities did not reflect in the demat statement.*

GSV's contention is not acceptable as the securities should not reflect in the register of securities. Further, GSV failed to provide any supporting documents i.e. auction bill, bank statement to determine fund pay-out made to the client, ledger, etc. Hence, the violation persists.

- b. As per Regulation 4.5.3 (e) of NSEIL Regulations (CM and F&O Segments), no Trading Member or person associated with a Trading Member shall make improper use of constituent's securities or funds. GSV violated the regulatory provision mentioned above by misusing the clients' securities.

11.17 **Misuse of clients' securities**

11.17.1 Upon verification of register of securities vis-à-vis the demat account holdings, it is observed that the securities are transferred to client without corresponding trade and is not recorded in the books of GSV. The details are as under:

- a. Securities transferred to client without corresponding trade, not recorded in the books of GSV

As per computed securities holdings, the securities receivable from Mr. Sanjay Gupta amounting to Rs.18.89 lakhs had an off-setting securities payable to Haseenarao Apparel (OPC) Private Limited ("**HASPL**") of equivalent amount in the same scrip i.e. Sanco Industries Limited. Upon comparison of computed client ledger and Noticee's register of securities ledger for both the clients, it is observed that GSV received 1,72,530 shares of Sanco Industries Limited amounting to Rs.18.89 lakhs on July 5, 2021, from HASPL and the same were transferred to Mr. Sanjay Gupta. The said off-market transaction was not recorded in the Noticee's register of securities. Further, as per Noticee's audited quarterly financial statement as of June 30, 2021, it is observed that HASPL is the related party of GSV.

- b. Pay-in obligation of a corporate client account settled from its director's account

As per computed securities holdings, securities receivable from Samudra Software Private Limited ("**SSPL**") of Rs.2 lakhs was off-setting with securities payable amounting to Rs.2.02 lakhs to Mr. Peter Ketels Schneeberger (Director of SSPL) in the same scrip, i.e., BSE Limited. Upon further analysis of demat statements, it is observed that 103 shares of BSE Limited received from Mr. Peter Ketels Schneeberger were recorded as received from SSPL in the register of securities of GSV to set-off pay-in obligation for 102 shares of

BSE Limited sold from SSPL. GSV could not provide details to validate authorization received from Mr. Peter Ketels Schneeberger for the said adjustment.

GSV thus misused the clients' securities as of February 28, 2022.

Particulars	Number of Clients	Derived Balance (Rs in lakhs)	Balance Reported by GSV (Rs in lakhs)	Difference (Rs in lakhs)
Securities receivable	12	22.53	0	22.53
Securities payable	40	31.41	8.56	22.85

11.17.2 In reply to the SCN-1, GSV submitted as under:

- a. Securities transferred to client without corresponding trade, not recorded in the books of GSV

These are off-market transactions undertaken with stock holding vide demat A/c No. 16010100-00479158. As these are off-market trades, the securities are not reflected in the register of securities. GSV provided copy of email from Mr. Sanjay Gupta and transaction statement from SHCIL, for verification.

- b. Pay-in obligation of a corporate client account settled from its director's account

The client SSPL has 2 demat accounts viz. 12051900-00014861 and IN301022-21327492. The client met the pay-in obligation from IN301022-21327492. GSV provided pool account transaction statement taken from SCHIL for verification.

11.17.3 The Committee finds as under:

- a. Securities transferred to client without corresponding trade, not recorded in the books of GSV

GSV contended that as the observed instances pertain to off-market transactions, the same was not reflected in the register of securities.

GSV's contention is not acceptable as in the case of an off-market transaction, the securities should reflect in the register of securities. Hence, the violation persists.

Furthermore, the Committee notes that Director of HASPL is Ms. Haseena Rao, wife of Jonna Venkata Tirupati Rao, who is a Dominant Promoter of GSV.

- b. Pay-in obligation of a corporate client account settled from its director's account

GSV contended that SSPL has two demat accounts with GSV and the pay-in obligation of one account was met from the other account.

GSV provided the transaction statement and not the client master to determine whether the demat accounts pertain to the respective corporate account., GSV failed to provide sufficient documentary evidence in support of its contention. In the absence of documentary evidence, the violation persists.

- c. As per Regulation 4.5.3 (e) of NSEIL Regulations (CM and F&O Segments), no Trading Member or person associated with a Trading Member shall make improper use of constituent's securities or funds. Thus, GSV violated the regulatory provision mentioned above by misusing the clients' securities.

11.18 **Misuse of clients' funds**

11.18.1 Upon analysis of the reconstructed financial ledgers of the clients account, it is observed that GSV under-reported trade payable

and trade receivable as of February 28, 2022.

(Rs in lakhs)

Particulars	Figures as per reconstructed ledger balance	Figures reported by GSV	Difference
Trade payable	101.43	10.47	90.96
Trade receivable	85.38	0.96	84.42

Further, upon verification of reconstructed ledger balance with the data reported by GSV towards cash and cash equivalent and Noticee's back-office, there is a difference in the range of (-ve) Rs.50 lakhs to Rs.27.39 lakhs in 67 instances.

11.18.2 In reply to the SCN-2, GSV submitted as under:

The forensic auditor inadvertently mixed up the expense A/c No. 00500340000669 with the client A/c No. 00500340000374 and 00500340000384.

11.18.3 The Committee finds as under:

- a. GSV contended that the difference in amounts occurred due to consideration of expense account instead of client account by the forensic auditor. However, GSV failed to provide client ledgers, trial balance etc. with respect to the observed instances. Hence, the violation persists.
- b. As per Regulation 4.5.3 (e) of the NSEIL Regulations (CM and F&O Segments), no Trading Member or person associated with a Trading Member shall make improper use of the constituent's securities or funds. GSV violated the above regulatory provisions mentioned above by misusing the clients' funds and reporting incorrect data towards cash and cash equivalent balances.

11.19 **Shortfall in net-worth**

11.19.1 Upon review of provisional books of accounts, GSV's net worth was Rs.81.47 lakhs as of February 28, 2022, which is below the net worth of Rs.1 crore prescribed by the Exchange, thereby resulting in a shortfall of Rs.18.53 lakhs.

11.19.2 GSV did not submit reply.

11.19.3 The Committee finds as under:

- a. The Noticee failed to submit any reply.
- b. As per Rule 33 of Chapter III of NSEIL Rules, one of the conditions and requirements for continued admittance to trading membership is maintaining a minimum net worth. Thus, GSV violated the regulatory provisions mentioned above by failing to maintain the minimum prescribed net worth.

11.20 **Non-fulfilment of fit and proper criteria by the Promoter**

11.20.1 Upon review of the shareholding pattern of GSV as of March 31, 2021, it is observed that Mr. Jonna Venkata Tirupati Rao was holding 13,91,375 shares constituting 70% of the shareholding of GSV. Further, it is observed that Mr. Jonna Venkata Tirupati Rao, was a promoter in Stampede, a Trading Member expelled from the membership of the Exchange under Rules 1 and 2 of Chapter IV of NSEIL Rules on July 14, 2021. Mr. Jonna Venkata Tirupati Rao fails to fulfil the 'fit and proper' criteria in terms of Regulation 3 (a) of Schedule II of the SEBI (Intermediaries) Regulations, 2008.

11.20.2 In reply to the SCN-2, GSV submitted as under:

GSV's management transferred the shares from Mr. Jonna Venkata Tirupati Rao to Mr. G. Vishnuvardhan Reddy, Director (holding 97% of the shareholding of GSV) and Mr. Rajesh Jopat, Director (holding 3% of the shareholding of GSV).

11.20.3 The Committee finds as under:

- a. GSV contended that it transferred the shares of Mr. Jonna Venkata Tirupati Rao to Mr. G. Vishnuvardhan Reddy and Mr. Rajesh Jopat, Directors of GSV.

- b. In this regard, it is noted as under:
- i. As of March 31, 2020, GSV transferred 70% of the shareholding to Mr. Jonna Venkata Tirupati Rao, thereby resulting in change in the shareholding pattern and change in control, without the prior approval of the Exchange.
 - ii. On February 10, 2021, GSV submitted a post-facto application for "change in shareholding pattern without change in control" to the Exchange. The Exchange, vide its email dated February 22, 2021, informed GSV that the change in the shareholding pattern tantamount to change in control and sought an explanation for not seeking prior approval of the Exchange. After repeated follow-ups, GSV applied for change in control on March 24, 2021, to the Exchange. The Exchange did not process the application as Mr. Jonna Venkata Tirupati Rao was related to Stampede. Mr. Jonna Venkata Tirupati Rao was a promoter and director in Stampede.
 - iii. The Committee, vide its order dated March 8, 2021, disabled the trading terminals of Stampede as it effected change in the control of management without the prior approval of the Exchange. Aggrieved by the decision of the Committee, Stampede filed Appeal No. 145 of 2021 before the Hon'ble SAT. The Hon'ble SAT, vide its order dated March 19, 2021, directed that the impugned order shall remain in abeyance during the pendency of the appeal.
 - iv. Thereafter, the Committee expelled Stampede from the membership of the Exchange under Rules 1 and 2 of Chapter IV of NSEIL Rules on July 14, 2021, *inter alia* on the ground of offering assured returns to the clients. Aggrieved by the decision of the Committee, Stampede filed Appeal No. 494 of 2021 before the Hon'ble SAT. The Hon'ble SAT, vide its order dated August 11, 2022, dismissed the appeals. In the said order, the Hon'ble SAT recorded that while Stampede was under the control of the present management, it continued to commit the violations as detailed above. The Committee noted that the present management at that point in time included Mr. Jonna Venkata Tirupati Rao.

- v. GSV submitted that it transferred the shares from Mr. Jonna Venkata Tirupati Rao to Mr. G. Vishnuvardhan Reddy and Mr. Rajesh Jopat, Directors of GSV. The Committee noted that the said transfer was without the prior approval of the Exchange. The Exchange became aware of the said transfer only upon receipt of the reply to SCN-2.
 - vi. As per Exchange Circular No. NSE/COMP/39726 dated December 20, 2018, Trading Members are required to seek prior approval from the Exchange for any change in the shareholding/sharing pattern of the Trading Member corporate/firm or the corporate shareholder(s)/identified as dominant promoter(s). GSV failed to obtain prior approval of the Exchange for change in shareholding and change in control, thereby circumventing the aforementioned regulatory obligation.
 - c. As per Schedule II of Securities and Exchange Board of India Intermediaries Regulations, 2008, for the purpose of determining as to whether any person is a 'fit and proper person', the Board may take into account any criteria as it deems fit, including but not limited to integrity, honesty, ethical behavior, reputation, fairness, and character of the person. As per Exchange Circular No. NSE/COMP/49213 dated August 6, 2021, promoters shall meet the condition of fit and proper person similar to the criteria envisaged in the SEBI (Intermediaries) Regulations, 2008 and being applied to intermediaries seeking registration from SEBI. Mr. Jonna Venkata Tirupati Rao was the promoter and director of Stampede, who is an expelled Trading Member, and major shareholder and promoter of GSV at the time when GSV was involved in offering assured returns to the clients. Therefore, Mr. Jonna Venkata Tirupati Rao fails to fulfil the 'fit and proper' criteria in terms of Regulation 3 (a) of Schedule II of the SEBI (Intermediaries) Regulations, 2008.
12. In view of the foregoing, the Committee notes that the Exchange and the Forensic Auditor conclude that GSV indulged in activities other than securities business such as collecting funds from clients/investors and promising/offering assured returns to clients/investors. The potential loss to the clients/investors by assured return schemes would result in loss of investor confidence and reliability

on securities market which cannot be retrieved if GSV is permitted to carry on assured return schemes. Therefore, it is essential to take steps to prevent GSV from soliciting and collecting funds from investors for assured return schemes. In the said circumstances, the continuance of membership of GSV with the Exchange is detrimental to the interest of investors in the securities market and, therefore, the Committee passed the following decision.

DECISION

13. GSV 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.

14. In case if GSV has any open positions in the Exchange, it can close out/square off such open positions within 3 months from the date of the order or at the expiry of the contracts, whichever is earlier. It is clarified that GSV 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.

Sd/-
Mona Bhide
(Chairperson)

Sd/-
K Narsimha Murthy
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Date: March 14, 2023