



**Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra (East) Mumbai – 400 051
held on December 22, 2022**

In the matter of the Trading Member M/s. Infotech Portfolio Private Limited

CORAM

Ms. Mona Bhide	- Chairperson
Mr. K Narasimha Murthy	- Committee Member
Mr. Ranganayakulu Jagarlamudi	- 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 – Enforcement

BACKGROUND

1. **M/s. Infotech Portfolio Private Limited ("Noticee")** is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Market ("**CM**") segment since May 2012, Futures and Options ("**F&O**") segment since June 2012, and Currency Derivatives ("**CD**") segment since November 2022.
2. The Exchange conducted a regular inspection of the Noticee's books of accounts and records, covering the period from April 1, 2021, to March 31, 2022. Post-inspection, the Exchange issued a show-cause notice ("**SCN**") dated September 16, 2022, to the Noticee to seek an explanation for the observed non-compliances with the regulatory provisions. Since the Noticee failed to reply to the SCN within the prescribed timeline, i.e. September 26, 2022, the Exchange issued reminder emails dated October 17, 2022, and November 25, 2022, to the Noticee. However, the Noticee failed to reply to the SCN to date

INSPECTION OBSERVATIONS/VIOLATIONS

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

- 3.1. Falsification of the Internal Audit Report submitted to the Exchange for the half-year ended March 2022
- 3.2. Shortfall in net worth, i.e. net worth of Rs.0.58 crore as of March 31, 2022
- 3.3. Excess pay-outs of funds to the clients in 4 instances pertaining to 2 clients involving Rs.3.23 lakhs
- 3.4. Engagement as a principal or an employee in business other than securities involving an outstanding loan of Rs.16.22 lakhs as of March 31, 2022
- 3.5. Incorrect data submitted in the weekly holding statement as of March 31, 2022, involving Rs.78.90 lakhs
- 3.6. Incorrect reporting of bank account balances of 5 bank accounts as of March 25, 2022, involving differences ranging from (-ve) Rs.0.23 lakh to Rs.10.99 lakhs
- 3.7. Non-settlement of clients' funds in 9 out of 20 instances selected for sample scrutiny (45% of the total sample instances) involving Rs.26.48 lakhs as of March 31, 2022
- 3.8. Incorrect data submitted for weekly monitoring of clients' funds involving differences ranging from (-ve) Rs.25 lakhs to Rs.89.84 lakhs as of March 25, 2022
- 3.9. Incorrect data submitted for Risk Based Supervision (RBS) in 3 areas involving differences ranging from (-ve) Rs.2 lakhs to Rs.16.22 lakhs as of September 30, 2021
- 3.10. Issuance of retention statement to clients with material discrepancies in 4 out of 20 instances selected for sample scrutiny
- 3.11. Non-issuance of the statement of account of funds and securities to clients in all 56 instances selected for sample scrutiny (100% of the total sample instances)

REGULATORY PROVISIONS

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

4.1 Falsification of internal audit report submitted to the Exchange**Rule 3 of Chapter IV of NSEIL Rules****Misconduct**

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

(a) *Fraud: If it is convicted of a criminal offence or commits fraud or a fraudulent act which in the opinion of the relevant authority renders it unfit to be a trading member;*

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

(c) *Improper Conduct: If in the opinion of the relevant authority it is guilty of dishonourable or disgraceful or disorderly or improper conduct on the Exchange or of wilfully obstructing the business of the Exchange.*

4.2 Shortfall of 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.

4.3 Excess fund pay-outs to 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 a principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability.*

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

In consultation with SEBI and other Stock Exchanges, the illustrative list of activities that are construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR, if undertaken by a member, are provided as below:

9. *Entering into any arrangement for extending loans or giving deposits / advances to any entity, including group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/ commodity derivatives business*

4.4 Engagement as principal or an employee in a business other than securities/commodities involving personal financial liability**a. Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957**

8. *The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:*

(3) *No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if –*

- (f) *he engages either as a principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability.*

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

In consultation with SEBI and other Stock Exchanges, the illustrative list of activities that are construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR, if undertaken by a member, are provided as below:

9. *Entering into any arrangement for extending loans or giving deposits/advances to any entity, including group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/ commodity derivatives business*

4.5 **Incorrect data submitted for 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.

4.6 **Incorrect data submitted for weekly bank account balances**

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

Member's attention is drawn to the Exchange Circular No. NSE/INSP/43486 dated February 10, 2020, regarding proposed submission of the following data/details:

1. -----
2. *Day-wise upload of bank balances (as per the bank statement) of all bank accounts on a weekly basis for all the calendar days of that week except Sunday (i.e., Monday to Saturday)*

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

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

Exchange Circular No. NSE/INSP/48624 dated June 16, 2021

In partial modification of the aforementioned circulars dated December 3, 2009, and September 26, 2016, on settlement of running account, following has been decided:

- 5.1. *The settlement of running account of funds of the client shall be done by the TM after considering the end of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges, at least once within a gap of 30 / 90 days between two settlements of running account as per the preference of the client.*
- 5.4. *For the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM, within next three working days irrespective of the date when the running account was previously settled.*

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

a. 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:*

A-Aggregate of fund balances available in all client bank accounts, including the Settlement Account, maintained by the stockbroker across stock exchange

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 the

stockbroker with the bank to obtain the BG, shall be considered as part of B.

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).

MF-Aggregate value of unutilized collateral lying with the clearing corporations and/or clearing member across Stock Exchanges

b. Exchange Circular No. NSE/INSP/37395 dated April 2, 2018

All Trading Members are requested to note that, w.e.f. April 2018 data towards monitoring of clients' funds is required to be submitted on weekly basis. Members will have to submit the data as on last trading day of every week on or before the next three trading days.

4.9 **Incorrect data submitted for risk-based supervision**

Exchange Circular No. NSE/INSP/50229 dated November 8, 2021

Members are requested to submit the Information / data towards the Risk Based Assessment for the period April 01, 2021–September 30, 2021, to the Exchange. The particulars of such information / data sought in this regard is enclosed as Annexure-A and the same must be submitted to the Exchange electronically through the Inspection module in the Member portal latest by November 30, 2021.

It is to be noted that the submission of RBS data is mandatory for all active Members of the Exchange (i.e. those who have executed/cleared even a single trade during the aforementioned period i.e. April 01, 2021–September 30, 2021). Further, the data collated from the Members/Exchange towards RBS is shared with SEBI and in case of any non- submission/delayed submission by a Member, disciplinary action as prescribed in Annexure- C will be initiated.

4.10 **Issuance of retention statement issued to clients with material discrepancies**

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

While settling the account, the broker shall send the client a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.

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

The stockbroker shall ensure that statement of accounts containing an extract from the client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is considered to be settled.

4.11 **Non-issuance of the statement of account of funds and securities**

Exchange Circular No. NSE/INSP/47227 dated February 3, 2021

With an objective to increase the transparency and safeguard the clients' assets lying with the members, the periodicity of 'Statement of Accounts' which is currently sent by members to clients on quarterly or monthly (in case of commodities) basis (within a month of the expiry of the calendar quarter) is revised to weekly basis

PAST MCSGFC PROCEEDINGS

5. The Exchange, vide its email dated November 16, 2022, granted the Noticee with an opportunity of a personal hearing before the Committee in the meeting scheduled on November 22, 2022. On telephonically enquiring about the Noticee's attendance for the personal hearing, the Noticee informed the Exchange that it did not receive the SCN. Therefore, the Exchange, vide its email dated November 21, 2022, forwarded the SCN to the email addresses provided by the Noticee viz. infotechport@gmail.com and vinodbansal@mail.com.
6. The Noticee, vide its email dated November 21, 2022, sought an adjournment on the ground that since it was unaware of the contents of the SCN until November 21, 2022,

a short notice of one day will be insufficient to defend the SCN. The Committee acceded to Noticee's request for an adjournment. The Exchange, vide its email dated November 25, 2021, informed the Noticee accordingly.

PRESENT MCSGFC PROCEEDINGS

7. The Exchange, vide its email dated December 15, 2022, provided the Noticee with an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. Vinod Kumar Bansal, Director, attended the personal hearing and made the following oral submissions:
 - a. The Noticee denied the inspection observation pertaining to falsification of the internal audit report.
 - b. The digital signature was not used by any unauthorized person.

CONSIDERATION AND FINDINGS

8. The observations/violations and findings of the Committee are as under:

8.1. Falsification of the internal audit report submitted to the Exchange

- 8.1.1. The Exchange verified the internal audit report submitted by the Noticee for the half-year ended March 31, 2022. Upon verification, the Exchange observed as under: -
 - a. M/s. Prem Gupta & Company, Chartered Accountant was appointed as the Noticee's Internal Auditor for the period October 1, 2021, to March 31, 2022.
 - b. The internal audit report submitted by the Noticee is on the letterhead of M/s. Prem Gupta & Company, Chartered Accountant. It is digitally signed by Mr. Vinod Kumar Bansal, Director of the Noticee instead of the Internal Auditor, and does not contain the Unique Document Identification Number ("**UDIN**").
 - c. The Internal Auditor, vide its email dated August 16, 2022, denied conducting the internal audit of the Noticee for the half year ended March 31, 2022, and submitting any internal audit report to the Exchange for the Noticee.

8.1.2. The Noticee failed to reply to the SCN.

8.1.3. The Committee finds as under: -

- a. During the personal hearing, the Noticee denied the charge and failed to provide any reasonable explanation to the queries raised by the Committee on the veracity of the internal audit report and the absence of UDIN on the internal audit report submitted to the Exchange. Furthermore, the Internal Auditor, vide its email dated August 16, 2022, denied conducting the internal audit of the Noticee for the half year ended March 31, 2022, and submitting any internal audit report to the Exchange for the Noticee.
- b. The Committee noted the following process involved in the appointment of the Internal Auditor by the Trading Member and submission of the Internal Audit Report to the Exchange:
 - i. Basis the appointment of the Internal Auditor for conducting the internal audit, Trading Member registers its Internal Auditor through the Exchange Member Interface (ENIT) Portal for submission of the half-yearly internal audit report.
 - ii. Upon registration of the Internal Auditor by the Trading Member on ENIT Portal, the login credentials are sent to the registered email address of the Internal Auditor provided by the Trading Member at time of the registration through the system.
 - iii. The Internal Auditor can view/download the sample data for conducting the internal audit of the Trading Member along with the internal audit check list on logging on the ENIT Portal.
 - iv. The Internal Auditor submits/uploads the status of compliance against each point in the internal audit checklist.
 - v. Post-submission/upload of the internal audit checklist, the Internal Auditor submits the details of the observed non-compliances.

- vi. Basis the submissions by the Internal Auditor, the Audit Certificate and Audit Report are generated (pdf) through the ENIT Portal.
 - vii. The Internal Auditor downloads the Audit Certificate and Audit Report from the ENIT Portal
 - viii. The Internal Auditor digitally signs the Audit Certificate and Audit Report using the e-lock mechanism.
 - ix. The Internal Auditor uploads the digitally signed Audit Certificate and Audit Report on the ENIT Portal.
 - x. Post submission of the Audit Certificate and Audit Report by the Internal Auditor, the Trading Member logs on the ENIT portal using its credentials and submits the management's comments on the non-compliances observed by the Internal Auditor.
 - xi. A final Audit Report is generated through ENIT Portal including the compliance status and management's comments on the observed non-compliances.
 - xii. The Trading Member downloads the Audit Report from the ENIT Portal, digitally signs it using the e-lock mechanism and makes the final submission to the Exchange.
- c. In the instant case, the Noticee registered the Internal Auditor, i.e. Prem Gupta & Company, Chartered Accountant, through the ENIT Portal, providing its own email address, i.e. infotechport@gmail.com, instead of the email address of the Internal Auditor. Therefore, the Noticee received the login credentials of the Internal Auditor on its own email address. It initiated the steps from points (b) (iii) to (ix) enumerated above by using the login credentials of the Internal Auditor. The Audit Certificate and Audit Report uploaded by the Noticee on the ENIT Portal was digitally signed by its Director Mr. Vinod Kumar Bansal and did not have the digital signature of the Internal Auditor and the UDIN. Hence, the Noticee indulged in falsification of the Internal Audit Report

- d. As per Rule 3 of Chapter IV of NSEIL Rules, a Trading Member shall be deemed guilty of misconduct if –
- i. it is convicted of a criminal offence or commits fraud or a fraudulent act which in the opinion of the Relevant Authority renders it unfit to be a trading member.
 - ii. it violates the provisions of any statute governing the activities, business and operations of the Exchange, trading members and securities business in general.
 - iii. in the opinion of the Relevant Authority, it is guilty of dishonourable or disgraceful or disorderly or improper conduct on the Exchange or of wilfully obstructing the business of the Exchange.

Thus, the Noticee violated the provisions of Rule 3(a), (b) and 3(c) of Chapter IV of the NSEIL Rules by falsifying the internal audit report.

8.2. **Shortfall of net worth**

- 8.2.1. The Exchange verified the Noticee's net worth certificate certifying a net worth of Rs.1.30 crores for the half year ended March 31, 2022, vis-à-vis its trial balance and balance sheet. Upon verification, the Exchange observed that the Noticee (a) failed to consider the values of free reserves, advances given to directors/group company, and 30% value of marketable securities (b) incorrectly considered the value of fixed assets and pre-paid expenses and losses.

Post-consideration of the value of free reserves and non-allowable assets, the Noticee's net worth stood revised at Rs.0.58 crore as of March 31, 2022, which is below the minimum net worth prescribed by the Exchange, viz. Rs.1 crore.

The details of the shortfall in net worth as of March 31, 2022, are as under:

Shortfall in net worth as of March 31, 2022

(Rs. in lakhs)

Sr	Particulars	Noticee's Calculatio n (I)	Exchange' s Calculatio n (II)	Differenc e (I-II)
A	Paid up capital	146.10	146.10	
	Free reserves	-	2.54	(2.54)
	Total (A)	146.10	148.64	(2.54)
B	Less: Non-allowable assets			
	Fixed assets	2.46	5.44	(2.98)
	Pledged securities	-	-	-
	Member's card	-	-	-
	Non-allowable securities	-	-	-
	Bad deliveries	-	-	-
	Doubtful debts and advances	-	-	-
	Advances given to Directors/ Group company	-	16.22	(16.22)
	Prepaid expenses/ losses	13.74	44.70	(30.96)
	Intangible assets	-	-	-
	30% value of marketable securities	-	24.72	(24.72)
	Total (B)	16.20	91.08	(74.88)
C	Net worth (A-B)	129.90	57.56	72.34

8.2.2. The Noticee failed to reply to the SCN.

8.2.3. The Committee finds as under: -

- a. In absence of a reply from the Noticee, the observation/violation persists.

- b. As per Rule 33 of Chapter III of the NSEIL Rules, the Relevant Authority shall from time to time prescribe conditions and requirements for continued admittance to trading membership which may, *inter alia* include maintenance of minimum net worth and capital adequacy, renewal of certification, if any, etc. The trading membership of any Trading Member who fails to meet this condition and requirement shall be liable to be terminated. Thus, the Noticee violated the regulatory provisions mentioned above by failing to maintain the minimum prescribed net worth.

8.3. **Excess fund pay-outs to the clients**

8.3.1. The Exchange verified the bank books, bank account statements, cash and cash equivalent submissions and client ledgers for pay-outs made to clients. Upon verification, the Exchange observed that the Noticee made pay-outs of funds to the clients in excess of their available balances/debit balances in the clients' ledger in 4 instances pertaining to 2 clients involving Rs.3.23 lakhs.

8.3.2. The Noticee failed to reply to the SCN.

8.3.3. The Committee finds as under: -

c. In the absence of a reply from the Noticee, the observation/violation persists.

d. Considering the non-materiality of the amount involved, the Committee decided no action is warranted against the Noticee for the observed violation.

8.4. **Engagement as a principal or an employee in a business other than securities/commodities involving personal financial liability**

8.4.1. The Exchange verified the loan ledgers, investments records and the trial balance for the year ended March 31, 2022. Upon verification, the Exchange observed that the Noticee extended loan of Rs.16.22 lakhs to its group company, viz. Kartik Leasing and Finance Private Limited who is not involved in the securities/commodities business. The said loan was outstanding as of March 31, 2022.

8.4.2. The Noticee failed to reply to the SCN.

8.4.3. The Committee finds as under: -

- a. In the absence of a reply from the Noticee, the observation/violation persists.
- b. As per Exchange Circular No. NSE/COMP/50957 dated January 7, 2022, entering into any arrangement for extending loans and giving deposits/advances to any entity including group companies not in connection with or incidental to or consequential upon the securities/commodity derivatives business is inter alia construed as non-compliance with Rule 8(1)(f) and 8(3)(f) of the Securities Contracts (Regulation) Rules, 1957. Thus, the Noticee violated the regulatory provisions mentioned above by extending loans to its group company.

8.5. **Incorrect data submitted in the weekly holding statement**

8.5.1. The Exchange verified the register of securities, demat holding statement and member weekly holding statement submission as of March 31, 2022. Upon verification, the Exchange observed that the Noticee submitted incorrect data to the Exchange for weekly holding statement as of March 31, 2022. The Noticee failed to report the securities worth Rs.78.90 lakhs available in the demat account in the weekly holding statement submitted to the Exchange.

8.5.2. The Noticee failed to reply to the SCN.

8.5.3. The Committee finds as under: -

- a. In the absence of a reply from the Noticee, the observation/violation persists.
- 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. Trading Member must verify the data

prior to its submission to the Exchange, to ensure compliance with regulatory provisions. Thus, the Noticee violated the regulatory provisions mentioned above by incorrectly reporting the data in the weekly holding statement to the Exchange.

8.6. **Incorrect reporting of bank account balances**

8.6.1. The Exchange verified the data submitted by Noticee in the weekly client level cash and cash equivalents and bank balances vis-à-vis the bank account statements and bank account balances submitted by the Noticee as of March 25, 2022. Upon verification, the Exchange observed that the Noticee submitted incorrect bank account balances of 5 bank accounts involving a difference ranging from (-ve) Rs.0.23 lakh to Rs.10.99 lakhs.

8.6.2. The Noticee failed to reply to the SCN.

8.6.3. The Committee finds as under: -

- a. In the absence of a reply from the Noticee, the observation/violation persists.
- b. As per Exchange Circular No. NSE/INSP/43926 dated March 23, 2020, the Trading Members are required to upload day-wise bank account balances of all bank accounts on weekly basis. The said circular was put in place to enhance monitoring and consider the prohibition on pledging client securities for raising funds. Thus, the Noticee violated the regulatory provisions mentioned above by incorrectly reporting the data for bank account balances.

8.7. **Non-settlement of clients' funds**

8.7.1. The Exchange verified the settlement declaration, client ledgers, bank books, weekly client-level cash and cash equivalent submission, trade data of the Exchange along with margin and obligation files from clearing corporations of the Noticee. Upon verification, the Exchange observed that the Noticee failed to settle the clients' funds in 9 instances pertaining to 7 clients out of 20 instances pertaining to 10 clients (45% of the total sample instances verified) involving Rs.26.48 lakhs.

8.7.2. The Noticee failed to reply to the SCN.

8.7.3. The Committee finds as under: -

- a. In the absence of a reply from the Noticee, the observation/violation persists.
- b. The concept of monthly or quarterly running settlement of clients' accounts by the Trading Member as per client preference is incorporated in Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, and Exchange Circular No. NSE/INSP/48624 dated June 16, 2021, to instill greater transparency and discipline in the dealings between the clients and the stockbrokers. Non-settlement of clients' accounts is prejudicial to the investors' interests. Thus, the Noticee violated the regulatory provisions mentioned above by failing to settle the clients' accounts.

8.8. **Incorrect data submitted for weekly monitoring of clients' funds**

8.8.1. The Exchange verified the data submitted for weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of September 30, 2022, vis-à-vis the trial balance, client (clear) ledgers, bank account statement and collateral and margin files of the Exchange/Clearing Corporation/Clearing Member. Upon verification, the Exchange observed that the Noticee submitted incorrect data for weekly monitoring of clients' funds in 7 areas involving differential amount ranging from (-ve) Rs.25 lakhs, to Rs.89.84 lakhs as of March 25, 2022.

8.8.2. The Noticee failed to reply to the SCN.

8.8.3. The Committee finds as under: -

- a. In the absence of a reply from the Noticee, the observation/violation persists.
- b. As 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. Thus, the Noticee violated the regulatory provision mentioned above by submitting incorrect data for weekly monitoring of clients' funds to the Exchange.

8.9. **Incorrect data submitted for Risk-Based Supervision**

8.9.1. The Exchange verified the risk-based supervision data submitted by the Noticee for the period ended September 30, 2021, vis-à-vis the trial balance and register of securities of the Noticee. Upon verification, the Exchange observed that the Noticee submitted incorrect data for risk-based supervision in 3 areas involving differential amount ranging from (-ve) Rs.2 lakhs to Rs.16.22 lakhs.

8.9.2. The Noticee failed to reply to the SCN.

8.9.3. The Committee finds as under: -

- a. In the absence of a reply from the Noticee, the observation/violation persists.
- b. As per Exchange Circular No. NSE/INSP/50229 dated November 8, 2021, Trading Members are requested to submit the information /data towards the Risk Based Assessment for the period April 01, 2021, to September 30, 2021, to the Exchange. The particulars of such information / data sought in this regard is enclosed as Annexure - A and the same must be submitted to the Exchange electronically through the Inspection module in the Member portal latest by November 30, 2021. Trading Members must verify the data prior to its submission to the Exchange. Thus, the Noticee violated the regulatory provisions mentioned above by submitting incorrect data towards risk-based supervision.

8.10. **Issuance of retention statement to clients with material discrepancies**

8.10.1. The Exchange verified the retention statements issued by the Noticee to its clients at the time of settlement, cash and cash equivalent submissions, client ledger, bank books, depository pledge records, and margin and obligation records of Clearing Corporation. Upon verification, the Exchange observed that the Noticee issued the

retention statement to clients with incorrect client ledger balances in 4 instances pertaining to 3 clients out of 20 instances pertaining to 10 clients.

8.10.2. The Noticee failed to reply to the SCN.

8.10.3. The Committee finds as under: -

a. In the absence of a reply from the Noticee, the observation/violation persists.

b. As per the Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, and Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the stockbroker shall ensure that statement of accounts containing an extract from the client ledger for funds and securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is settled. Trading Members must verify data mentioned in the retention statements issued to its clients. Thus, the Noticee violated the regulatory provisions mentioned above by issuing retention statements to the clients with material discrepancies.

8.11. **Non-issuance of the statement of account of funds and securities**

8.11.1. The Noticee failed to provide logs/proof of dispatch of the statement of accounts of funds and securities to its clients. Therefore, it is deemed that the Noticee failed to issue the statement of accounts of funds and securities to its active clients at the time of settlement of clients' accounts during the inspection period in all 56 instances selected for sample scrutiny (100% of the total sample instances verified)

8.11.2. The Noticee failed to reply to the SCN.

8.11.3. The Committee finds as under: -

a. In the absence of a reply from the Noticee, the observation/violation persists.

- b. As per Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, and Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the stockbroker shall ensure that statement of accounts containing an extract from the client ledger for funds and securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is settled. Furthermore, as per Exchange Circular No. NSE/INSP/47227 dated February 3, 2021, with an objective to increase the transparency and safeguard the clients' assets lying with Trading Member, the periodicity of 'Statement of Accounts' which is currently sent by Trading Member to clients on quarterly or monthly (in case of commodities) basis (within a month of the expiry of the calendar quarter) is revised to weekly. Thus, the Noticee violated the regulatory provisions mentioned above by failing to issue the statement of account of funds and securities to its clients.

9. **CONCLUSION**

- a. The Noticee committed several violations viz. falsification of the internal audit report submitted to the Exchange, shortfall in net-worth, engagement as principal in business other than securities, non-settlement of clients' funds, non-issuance of statement of accounts of funds and securities, issuance of retention statement with material discrepancies, and incorrect submissions in weekly holding statement, weekly monitoring of clients' funds, risk based supervision and bank account balances.
- b. Out of the several violations enumerated above, the Noticee committed a grave violation, viz. falsification of the internal audit report submitted to the Exchange for the half year ended March 31, 2022. The internal audit report submitted by the Noticee is on the letterhead of M/s. Prem Gupta & Company, Chartered Accountant. It is digitally signed by Mr. Vinod Kumar Bansal, Director of the Noticee instead of the Internal Auditor, and does not contain the UDIN. During the personal hearing, the Noticee denied the charge. It failed to provide any reasonable explanation to the queries raised by the Committee on the veracity of the internal audit report and the absence of UDIN on the internal audit report. Moreover, the Internal Auditor, vide its email dated August 16, 2022, denied conducting the internal audit of the Noticee for the half year ended March 31, 2022, and submitting any internal audit report to the Exchange for the Noticee.

- c. In terms of Regulations 4.5.1 and 4.5.2 of Exchange Regulations (CM and F&O Segments), Trading Members are required to adhere to the SEBI Code of Conduct and General Principles. The relevant extracts are reproduced below:

4.5.1 ADHERENCE TO SEBI CODE OF CONDUCT

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

4.5.2 GENERALPRINCIPLES

(a) Professionalism: A Trading Member in the conduct of his business, shall observe high standards of commercial honour of just and equitable principles of trade.

(b) Adherence to Trading Practices: Trading Members shall adhere to the Rules, Regulations and Byelaws of the Exchange and shall comply with such operational parameters, rulings, notices, guidelines, and instructions of the relevant authority as may be applicable from time to time.

(c) Honesty and Fairness: In conducting his business activities, a Trading Member shall act honestly and fairly, in the best interests of his constituents.

- d. The Noticee indulged in falsification of the Internal Audit Report. The Trading Member plays an important role in the securities market as it acts as an interface for investors and is therefore required to maintain high standards of integrity and fairness in the conduct of its business dealings. The Noticee failed to uphold the trust reposed upon it as a market intermediary. It failed to abide by the Code of Conduct prescribed for Trading Members under Regulations 4.5.1 and 4.5.2 of Exchange Regulations (CM and F&O Segments). The act of the Noticee tantamount to misconduct under Rules 3(a), 3(b) and 3(c) of Chapter IV of Rules of the Exchange and therefore liable for disciplinary action under Rules 1 and 2 of Chapter IV of Rules of the Exchange. The relevant extracts are reproduced below:

Disciplinary Jurisdiction

- (1) *The relevant authority may expel or suspend and/or fine under censure and/or warn and/or withdraw any of the membership rights of a trading member if it be guilty of contravention, non-compliance, disobedience, disregard or evasion of any of the Byelaws, Rules and Regulations of the Exchange or of any resolutions, orders, notices, directions or decisions or rulings of the Exchange or the relevant authority or any other Committee or officer of the Exchange authorised in that behalf or of any conduct, proceeding or method of business which the relevant authority in its absolute discretion deems dishonorable, disgraceful or unbecoming a trading member of the Exchange or inconsistent with just and equitable principles of trade or detrimental to the interests, good name or welfare of the Exchange or prejudicial or subversive to its objects and purposes.*

Penalty for Misconduct, Unbusinesslike Conduct and Unprofessional Conduct

- (2) *In particular and without in any way limiting or prejudicing the generality of the provisions in Rule (1) above, a trading member shall be liable to expulsion or suspension or withdrawal of all or any of its membership rights and/or to payment of a fine and/or to be censured, reprimanded or warned for any misconduct, unbusinesslike conduct or unprofessional conduct in the sense of the provision in that behalf contained herein.*

Misconduct

- (3) *A trading member shall be deemed guilty of misconduct for any of the following or similar acts or omissions namely:*
- (a) *Fraud: If it is convicted of a criminal offence or commits fraud or a fraudulent act which in the opinion of the relevant authority renders it unfit to be a trading member;*
 - (b) *Violation: If it has violated provisions of any statute governing the activities, business and operations of the Exchange, trading members and securities business in general.*
 - (c) *Improper Conduct: If in the opinion of the relevant authority it is guilty of dishonourable or disgraceful or disorderly or improper conduct on the Exchange or of willfully obstructing the business of the Exchange.*

- e. In the circumstances, the continuance of trading membership of the Noticee on the Exchange is detrimental to the interest of investors in the securities market and, therefore, the Committee decided to pass the following decision: -

DECISION

10. The Noticee is hereby expelled from the membership of the Exchange under Rules 1 and 2 of Chapter IV of NSEIL Rules.
11. This decision will be effective after three weeks from the date of this order, i.e. June 17, 2023.

Sd/-
Mona Bhide
(Chairperson)

Sd/-
K Narasimha Murthy
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Date: May 26, 2023