

**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 October 7, 2022**

**In the matter of the Trading Member M/s. Single Window Securities Limited**

**CORAM:**

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

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**BACKGROUND**

1. **M/s Single Window Securities Limited ("Noticee")** is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") in the Capital Market ("**CM**"), Futures & Options ("**F&O**") and Currency Derivatives ("**CD**") segments.
2. The Exchange conducted a regular inspection of the Noticee's books of accounts and records from March 2020 to August 2020 covering the period from February 1, 2019, to January 31, 2020. Post-inspection, the Exchange observed that the Noticee *inter alia* misused the clients' funds to the extent of Rs.5.73 crores as of January 24, 2020. Therefore, the Exchange issued a show-cause notice ("**SCN-1**") dated September 30, 2020, to the Noticee for the observed non-compliances with the regulatory provisions. The Noticee, vide its email dated October 10, 2020, replied to the SCN-1.
3. In the meeting held on December 18, 2020, the Committee noted that the shortfall of clients' funds was reduced from Rs.5.73 crores as of January 24, 2020, to Rs.2.04 crores as of November 26, 2020. Therefore, the Committee granted the Noticee additional time of 60 days to recoup the shortfall of clients' funds, failing which the Committee may consider prohibiting the onboarding of new clients. The

Exchange, vide its email dated December 21, 2020, communicated the said direction to the Noticee.

4. In the meeting held on March 3, 2021, the Committee noted that the Noticee self-reported shortfall of clients' funds to the extent of Rs.1.73 crores in its weekly submissions towards monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of February 19, 2021. Therefore, the Committee, vide its order dated March 31, 2021, prohibited the Noticee from onboarding new clients with immediate effect from the date of the order and granted additional 21 days to recoup the shortfall of clients' funds, failing which the Exchange shall disable the trading terminals across segments. The Exchange, vide its email dated March 31, 2021, forwarded the interim order to the Noticee. The Noticee, vide its email dated April 17, 2021, informed the Exchange that it recouped the shortfall of clients' funds.
5. Upon verification of the documentary evidence regarding recouping of the shortfall of clients' funds, the Exchange observed that the Noticee revised the general trial balance thrice as of April 21, 2021, on account of carrying forward errors, without due explanation. Further, the Noticee neither explained the nature of accounts involved nor provided the ledger of the accounts sought explicitly by the Exchange.
6. Considering that the Noticee failed to recoup the shortfall of clients' funds, as directed by the Committee, vide interim order dated March 31, 2021, the Exchange disabled the trading terminals of the Noticee with effect from April 27, 2021.
7. Due to multiple revisions of the general trial balance causing reasonable apprehensions regarding the reliability of the Noticee's books of accounts and record and its impact on the clients' assets, the Exchange initiated a forensic audit in the interest of investors.

### **FORENSIC AUDIT**

8. The Exchange appointed a forensic auditor to conduct a forensic audit of the Noticee. The period of review was from April 1, 2018, to March 31, 2021, which was subsequently extended to April 30, 2021. The purpose of the forensic audit was to ascertain/verify the shortfall of clients' funds, the creation of a register of securities, client balance reconstructions etc. Post-forensic audit, the Exchange, issued a show cause notice ("**SCN-2**") dated March 4, 2022, to the Noticee for the observed non-compliances with the regulatory provisions. The Noticee, vide its email dated May 14, 2022, submitted its reply to the SCN-2.

**INSPECTION OBSERVATIONS/VIOLATIONS**

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

**SCN-1**

- 9.1 Misuse of clients' funds to the extent of Rs.5.73 crores as of January 24, 2020, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers
- 9.2 Incorrect data reported in the weekly holding statement as of January 31, 2020
- 9.3 Non-reconciliation of securities recorded in the back-office vis-à-vis securities available in the demat accounts in the case of 2 out of 143 scrips involving Rs.2.75 lakhs as of January 31, 2020
- 9.4 Non-settlement of clients' funds and securities in 178 out of 476 instances selected for sample scrutiny (37.39% of the total sample instances)
- a. Active Clients
- 2 instances of 1 client out of 50 instances of 25 clients selected for sample scrutiny (4% of the total sample instances) involving Rs.75.71 lakhs
- b. Inactive Clients
- Funds – 148 out of 358 clients selected for sample scrutiny (41.34 % of the total sample clients) involving Rs.33.32 lakhs as of January 31, 2020
- Securities – 28 out of 68 clients selected for sample scrutiny (41.18 % of the total sample clients) involving Rs.11.56 lakhs as of January 31, 2020
- 9.5 Non-maintenance of holding statements, bank books and client ledgers in the prescribed standard format
- 9.6 Failure to assign appropriate nomenclature to 1 out of 14 demat accounts
- 9.7 Failure to assign appropriate nomenclature to 3 out of 24 bank accounts

- 9.8 Material discrepancies in the retention statement issued to the clients in 18 instances pertaining to 10 clients out of 42 instances pertaining to 22 clients selected for sample scrutiny (42.86% of total sample instances)
- 9.9 Funding of clients' transactions in 3 instances pertaining to 3 clients out of 65 instances pertaining to 34 clients selected for sample scrutiny (4.62% of the total sample clients) involving Rs.54.69 lakhs
- 9.10 Incorrect data reported in the weekly monitoring of clients' funds as of January 24, 2020
- 9.11 Incorrect data reported in the monthly balances of clients' funds and securities as of January 31, 2020

**SCN-2**

- 9.12 Engagement in unwarrantable business, i.e. providing assured returns
- 9.13 Misuse of clients' funds to the extent of Rs.87.15 lakhs as of April 30, 2021, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers
- 9.14 Observation pertaining to discrepancies in maintenance of books of accounts
- a. Incorrect fund balances in the client ledgers
  - b. Inter-client adjustments between 5 client accounts linked to Mr. R. Krishnaswamy, Director of the Noticee
  - c. Transfer of funds between multiple clients by the way of journal entries
- 9.15 Non-settlement of funds and securities of 6 inactive clients involving Rs.12.44 lakhs
- 9.16 Conflict of interest with Statutory Auditor
- 9.17 Funding of clients' transactions in the case of 11 instances pertaining to 2 clients involving Rs.1.45 lakhs

- 9.18 Non-reconciliation of securities as per the reconstructed register of securities vis-à-vis securities available in the demat accounts as of April 30, 2021
- 9.19 Shortfall of clients' securities (Scrips – 188; Quantity – 3,05,735/-; Value - Rs.3.99 crores)
- 9.20 Incorrect data reported in the weekly client-level cash and cash equivalent balances as of April 30, 2021
- 9.21 Use of client bank account for purpose other than specified

### **REGULATORY PROVISIONS**

10. 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:

10.1 **Misuse of clients' funds**

- a. 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 the constituent's securities or funds.*

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

*3.3. Based on the aforesaid information submitted by the stockbroker, Stock Exchanges shall put in place a mechanism for monitoring of clients' funds lying with the stockbrokers on the principles enumerated below:*

*3.3.1. Funds of credit balance clients used for settlement obligations of debit balance clients and own purpose:*

*Principle*

*The total available funds i.e. cash and cash equivalents with the stock broker and with the clearing corporation/clearing member (A + B) should always be equal to or greater than Clients' funds as per ledger balance (C).*

$$G = (A+B) - C$$

10.2 **Incorrect data reported 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.*

10.3 **Non-reconciliation of securities**

a. Exchange Circular No. NSE/INSP/10605 dated April 21, 2008

*The records should be periodically reconciled with the actual collateral deposited with the broker.*

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

*The Members are 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.*

10.4 **Non-settlement of clients' funds and securities**

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

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

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

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

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

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

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

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

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

- i. Open one separate client bank/client collateral demat account and immediately set aside the funds and securities of these clients in such account.*
- ii. Maintain audit trail of UCC wise client funds transferred to/from such bank account and UCC wise / BO ID wise securities transferred to/from such demat account (as the case may be).*
- iii. Submit UCC wise/BO ID wise and fund/securities information of such account to the Exchange on quarterly basis. The mechanism and the format of the same will be shared in due course.*

*In case of receipt of any claims from such clients, members are advised to settle the accounts immediately and ensure that the payment/delivery is made to the respective clients only.*

10.5 **Non-maintenance of holding statement, bank book and client ledger in the prescribed standard format**

Exchange Circular No. NSE/INSP/38743 dated August 30, 2018

*In order to standardize the maintenance of books of accounts/records and ensure uniformity across all Members, a standard format for Register of Securities, Holding Statement, Bank Book and Client Ledger is prescribed in the circular.*

*Non-maintenance of Register of Securities, Holding Statement, Bank Book, and Client Ledger in the prescribed format is a violation of the provisions of the Securities Contracts (Regulation) Rules 1957 / Regulations of the Exchange and will attract appropriate disciplinary action as per Rule 1 and 2 of Chapter IV of NSEIL Rules.*

10.6 **Failure to assign appropriate nomenclature to demat accounts**

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

*1.2. The nomenclature for bank accounts and demat accounts to be followed is given as under:*

*1.2.3. Demat account(s) which hold clients' securities shall be named as "Name of Stockbroker - Client Account".*

*1.2.4. Demat account(s) which hold own securities of the stockbroker shall be named as "Name of Stockbroker - Proprietary Account".*

*1.2.5. Demat account(s), maintained by the stockbroker for depositing securities collateral with the clearing corporation, shall be named as "Name of Stockbroker-Collateral Account".*

*1.2.6. Demat account(s) held for the purpose of settlement would be named as " Name of Stockbroker - Pool account".*

**10.7 Failure to assign appropriate nomenclature to bank accounts**

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

*1.2. The nomenclature for bank accounts and demat accounts to be followed is given as under:*

*1.2.1. Bank account(s) which hold clients' funds shall be named as "Name of Stockbroker - Client Account".*

*1.2.2. Bank account(s) which hold own funds of the stockbroker shall be named as "Name of Stockbroker - Proprietary Account".*

*1.2.7. Bank account(s) held for the purpose of settlement would be named as "Name of Stockbroker - Settlement Account".*

**10.8 Material discrepancies in the retention statement issued to the clients**

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

*While settling the account, the broker shall send to 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

*8.1.4 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.*

**10.9 Funding of clients' transactions****a. Exchange Circular No. NSE/INSP/35184 dated June 23, 2017**

*The stockbrokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continue beyond the fifth trading day, as reckoned from the date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, or as may be issued from time to time.*

**10.10 Incorrect data reported in the weekly monitoring of clients' funds****Exchange Circular No. NSE/INSP/33276 dated September 27, 2016**

*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 exchanges.*

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

*C-Aggregate value of Credit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations)*

*D-Aggregate value of Debit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients, uncleared cheques issued to clients and the margin obligations)*

*MC-Aggregate value of margin utilized for positions of credit balance clients across stock exchanges*

*MF-Aggregate value of Unutilized collateral lying with the clearing corporations and/or clearing member across stock exchanges*

10.11 **Incorrect data reported in the monthly balances of clients' funds and securities**

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

*7.1 The Stock Exchanges shall put in place a mechanism and ensure that stockbrokers upload the following data on a monthly basis for every client onto each Stock Exchange system where the broker is a member*

*7.1.1. Exchange-wise end of day fund balance as per the client ledger, consolidated across all segments and also net funds payable or receivable by the broker to/from the client across all Exchanges*

*7.1.2. End of day securities balances (as on last trading day of the month) consolidated ISIN wise (i.e., total number of ISINs and number of securities across all ISINs)*

*7.1.3. For every client, number of securities pledged, if any, and the funds raised from the pledging of such securities*

*7.1.4. The data at Para 7.1.1, 7.1.2 and 7.1.3 pertains to the last trading day of the month. The stockbroker shall submit the aforesaid data within seven days of the last trading day of the month.*

10.12 **Engagement in unwarrantable business, i.e. providing assured returns**

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. Regulation 4.5.1 and 4.5.2 of Exchange Regulations (CM and F&O Segments)

*4.5.1 Adherence to SEBI Code of Conduct*

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

*4.5.2 General Principles*

*(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.*

10.13 Observation pertaining to discrepancies in maintenance of books of accounts

a. Regulations 6.1.1 and 6.1.2 of NSEIL Regulations (CM and F&O Segments)

6.1.1. *Every Trading Member shall comply with all relevant statutory Acts, including Securities Contracts (Regulation) Act, 1956 and Rules thereunder of 1957, and Securities Exchange Board of India Act, 1992 and Rules, Regulations and guidelines thereunder, and the requirements of and under any notifications, directives, and guidelines issued by the Central Government and any statutory body or local authority or anybody or authority acting under the authority or direction of the Central Government relating to maintenance of accounts and records.*

6.1.2. *In addition to the requirements as per Regulation 6.1.1 above, every Trading Member of the Exchange shall comply with the following requirements and such other requirements as the Exchange may from time to time notify in this behalf relating to books of accounts, records, and documents in respect of his membership and trading on the CM/F&O segment of the Exchange.*

b. Regulation 6.1.5 (e) of Exchange Regulations (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.*

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

*There shall be no inter-client adjustments for the purpose of settlement of the 'running account'.*

d. Exchange Circular No NSE/INSP/38743 dated August 30, 2018

*In order to standardize the maintenance of books of accounts / records and to ensure uniformity across all Members, a standard format for register of securities, holding statement, bank book and client ledger is prescribed herewith.*

*The revised formats shall be applicable w.e.f. December 01, 2018. Members are advised to make necessary changes in their back office in order to comply with requirements.*

*Members may further note that non-maintenance of Register of Securities, Holding Statement, Bank Book and Client Ledger in the prescribed format is a violation of the provisions of the Securities Contracts (Regulation) Rules 1957 / Regulations of the Exchange and will attract appropriate disciplinary action as per Rule 1 and 2 of Chapter IV of NSEIL Rules.*

- e. Exchange Circular No. NSE/INSP/39393 dated November 13, 2018

*The Exchange issued revised guidelines for maintenance of standardized books, i.e., register of securities, holding statement, bank book and client ledger.*

10.14 **Conflict of interest with Statutory Auditor**

- a. The Companies Act, 2013 read with The Companies (Audit and Auditors) Rules, 2014

*Section 141(3) of the Companies Act, 2013*

*The following persons shall not be eligible for appointment as an auditor of a company, namely-*

*(d) a person who, or his relative or partner —*

- (i) ...*
- (ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as may be prescribed.*

*Rule 10(2) The Companies (Audit and Auditors) Rules, 2014*

*For the purpose of sub-clause (ii) of clause (d) of sub-section (3) of section 141, a person who or whose relative or partner is indebted to the company or its subsidiary or its holding or associate company or a subsidiary of such holding company, in excess of rupees five lakh shall not be eligible for appointment.*

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

*4.2.1. Stock Exchanges shall ensure that:*

*4.2.1.1. Stockbrokers obtains from the internal auditor the following details and shares the same with the Stock Exchange:*

- a. Declaration stating that the internal auditor or its directors/partners have no interest in or relation with the stockbroker concerned other than the proposed internal audit assignment.*

**10.15 Shortfall of clients' securities**

- a. 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 the constituent's securities or funds.*

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

*Members are advised to ensure that the funds & securities available in the client bank/s and client beneficiary account/s 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*

**10.16 Incorrect data reported in the weekly cash and cash equivalent balances**

- a. 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.*

**10.17 Use of client bank account for purpose other than specified**

- a. 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 the constituent's securities or funds.*

- b. Regulation 6.1.5 (c) of NSEIL Regulations - Part A (CM Segment) and Regulation 6.1.6.2 of NSEIL Regulations (F&O Segment)

(ii) *Moneys to be paid into "clients account": No money shall be paid into clients account other than*

A. *money held or received on account of clients.*

B. *such moneys belonging to the Trading Member as may be necessary for the purpose of opening or maintaining the account.*

C. *money for replacement of any sum which may by mistake or accident have been drawn from the account.*

D. *a cheque or draft received by the Trading Member representing in part money belonging to the client and in part money due to the Trading Member.*

(iii) *Moneys to be withdrawn from "clients account": No money shall be drawn from clients account other than –*

A. *money properly required for payment to or on behalf of clients for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Trading Member, provided that money so drawn shall not in any case*

*exceed the total of the money so held for the time being for such each client.*

- B. such money belonging to the Trading Member as may have been paid into the client account under para (ii.B) and (ii.D) above. money which may by mistake or accident have been paid into such account.*

### **PAST PROCEEDINGS BEFORE MCSGFC**

#### **11. Meeting dated December 18, 2020**

- a. The Exchange, vide its email dated December 11, 2020, provided the Noticee with an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Ms. Suppriya. S - Compliance Officer, Mr. P.R. Lakshminarayanan - Manager, and Mr. Melvin W D'souza - Senior Executive attended the personal hearing via Microsoft Teams and submitted as under:

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The Noticee will recoup the shortfall of clients' funds within three months from the date of the meeting.

- b. In view of the above, the Committee directed the Noticee to recoup the shortfall of clients' funds within 60 days from the date of the meeting and submit evidence to the satisfaction of the Exchange, failing which the Noticee would be prohibited from onboarding new clients.
- c. The Exchange, vide its email dated December 21, 2020, communicated the said interim direction to the Noticee.

#### **12. Meeting dated March 3, 2021**

- a. The Exchange, vide email dated February 25, 2021, provided the Noticee with an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. Chandramohan Dawar - Director, Ms. Suppriya. S - Compliance Officer and Mr. P.R. Lakshminarayanan – Manager attended the personal hearing via Microsoft Teams and *inter alia* submitted as under: -

- i. The Noticee reduced the shortfall of clients' funds from Rs.5.73 crores as of January 24, 2020, to Rs.2.04 crores as of November 26, 2020.
    - ii. Alternatively, the Noticee tried to demonetize its fixed and other assets to recoup the shortfall of clients' funds. However, due to the COVID -19 pandemic, the Noticee was unable to do so.
    - iii. Funds amounting to Rs.9 lakhs and Rs.12.75 lakhs are payable to the Noticee from IL&FS and IndusInd Bank, respectively. Once the Noticee receives the funds, the shortfall of clients' funds will further reduce.
    - iv. The Noticee does not undertake proprietary trading. The Noticee has given bank guarantee to the Clearing Member in the F&O segment against the fixed deposit receipts created out of clients' funds.
    - v. The Noticee requested the Committee to grant 21 days to recoup the entire shortfall of clients' funds.
  - b. In view of the above, the Committee directed as under:
    - i. The Noticee shall be prohibited from onboarding new clients with immediate effect until further notice.
    - ii. The Noticee shall be granted 21 days from the date of the order to recoup the shortfall of clients' funds in entirety to the satisfaction of the Exchange, failing which the trading terminals of the Noticee shall be disabled in all segments.
  - c. The Exchange, vide its email dated March 31, 2021, forwarded the interim order to the Noticee.
  - d. Since the Noticee failed to recoup the shortfall of clients' funds, the Exchange disabled the trading terminals of the Noticee across segments since April 27, 2021.
13. Meeting dated July 21, 2022
- a. The Exchange, vide its email dated July 15, 2022, provided the Noticee with an opportunity of a personal hearing before the Committee. On behalf of the

Noticee, Mr. Krishnaswamy – Designated Director attended the personal hearing and submitted as under:

- i. It denied receiving details pertaining to funds and securities due to clients.
  - ii. The forensic auditor failed to consider various entries during the forensic audit.
- b. In view of the above, the Committee directed the Noticee to submit all relevant supporting documents within 15 days from the date of communication of the direction to prove that the dues (funds and securities) of all the clients are settled, failing which disciplinary action, including expulsion and declaration of default will be initiated.
- c. The Exchange, vide its email dated July 25, 2022, communicated the interim direction to the Noticee.

### **CONSIDERATION & FINDINGS**

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

#### **SCN-1**

##### **14.1. Misuse of clients' funds**

- 14.1.1. Upon verification of the data submitted by the Noticee towards weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of January 24, 2020, vis-a-vis the trial balance, bank statements, and records of the Exchange/Clearing Corporation pertaining to margin requirement and collaterals/deposits with Clearing Corporation/Clearing Member, the Exchange observed that the Noticee misused the clients' funds.

The Noticee used the funds of credit balance clients to meet the settlement obligation of debit balance clients and/or proprietary trading to the extent of Rs.5.73 crores as of January 24, 2020, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers.

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

- a. The total funds available with it was shown as only Rs.9.50 crores. The Noticee had taken bank guarantee of Rs.6.60 crores from IndusInd Bank for margin by giving 25% cash margin and 25% collateral which includes (a) office building at Trichy Road, Coimbatore (b) Farm of Mr.R Krishnaswamy, its Director at Sundapalayam. The Noticee provided sanction letter from IndusInd Bank for reference. While calculating the funds availability, the Exchange considered only 25% cash portion, i.e. Rs.1.65 crores and included in the non-funded portion. The Exchange failed to consider balance of Rs.4.95 crores.
- b. The Noticee had a fixed deposit amount of Rs.4.70 crores maintained with IndusInd Bank. If the Noticee deducts Rs.1.65 crores (bank guarantee funded value) and Rs.2.41 crores (overdraft) from the fixed deposit amount of Rs.4.70 crores, it will have a balance fixed deposit amount of Rs.65 lakhs. The Exchange failed to consider the balance fixed deposit amount of Rs.65 lakhs available with IndusInd Bank. It provided bank statement of fixed deposit and overdraft account.
- c. Since Axis Bank is not accepting bank guarantees of IndusInd Bank now-a-days, the Noticee surrendered the bank guarantees with IndusInd Bank who will credit the amount of Rs.3.25 crores in its account. Out of Rs.3.25 crores, Rs.1.70 crores were credited and reflected in the client bank account on October 7, 2020. The balance amount was in process of being transferred. Hence, for calculating the funds availability as of October 8, 2020, it took the balance fixed deposit after deducting the overdraft. It provided bank statement of the client bank account.
- d. While calculating the funds availability as of January 24, 2020, the Exchange failed to consider the interest amount credited by HDFC Bank.

- e. Post-inspection, funds amounting to Rs.1.40 crores were recovered from debtors. The Noticee provided the list of debtors to the Exchange.
- f. The credit balance of Rs.15.23 crores is inclusive of the credit balance of directors and their relatives amounting to Rs.3.61 crores which will be paid after clearing clients' payables.
- g. The Noticee recovered Rs.30 lakhs towards rent deposits.
- h. As of January 24, 2020, the maximum margin utilization was by credit balance clients and the margin shortfall was Rs.9.83 lakhs. It reported the same to the Exchange.
- i. It provided the fund calculation as of October 8, 2020, substantiating that the available funds are more than sufficient for trades payable. The details are as under:

Sr.	Particulars	Amount (Rs in crores)
A	Total of day end balance in all client bank and settlement bank account	4.06
B	Collateral deposited with Clearing Corporation in form of cash and cash equivalents	7.10
C	Total credit balance of all clients	10.16
G	$G = (A+B)-C$	0.99

14.1.3. The Committee finds as under:

- a. The Noticee contended that the Exchange considered 25% cash margin and not the collateral (office building and farm) while calculating the funds availability. As per Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, the aggregate value of collateral deposited with Clearing Corporations and/or Clearing Member in form of cash and cash equivalents shall include only funded portion of the bank guarantee. The value of any immovable assets pledged for getting the bank guarantee should not be considered as

funded portion. Therefore, the Noticee's contention is not acceptable.

- b. The Noticee contended that the Exchange failed to consider the balance fixed deposit amount of Rs.65 lakhs available with IndusInd Bank while calculating the funds availability. However, the Noticee failed to provide any documentary evidence to prove that the said fixed deposit was created from the client bank account. Hence, the fixed deposit cannot be considered while calculating the availability of clients' funds.
- c. The Noticee claimed that it surrendered the bank guarantees of Rs.3.25 crores with IndusInd Bank and considered the bank guarantees after deducting the overdraft while calculating the availability of clients' funds as of October 8, 2020. Upon verification of the bank statement of the client bank account, it is observed that the Noticee received only Rs.1.70 crores on October 7, 2020, and the balance Rs.1.55 crores were yet to be received. Therefore, the Noticee's claim is not acceptable because the Noticee considered Rs.1.55 crores which was not yet credited in the client bank account.
- d. The Noticee claimed that the Exchange failed to consider the interest amount credited by HDFC Bank while calculating the availability of clients' funds as of January 24, 2020. However, the Noticee failed to provide documentary evidence to the Exchange. In the absence of documentary evidence, the violation persists.
- e. The Noticee claimed that the Exchange failed to consider the funds recovered from debtors and rent deposits while calculating the availability of clients' funds as of January 24, 2020. Upon verification, it is observed that the Noticee received from debtors' funds and rent deposits post-inspection. However, post-inspection compliance does not absolve the Noticee from violation committed.
- f. The Noticee claimed that the credit balance is inclusive of the credit balance of directors' and their relatives which will be paid after clearing clients' payables. Upon verification of the details pertaining to the credit balance of directors and their relatives,

it is observed that the date against the credit balances is September 30, 2020, instead of January 24, 2020. Therefore, the Noticee's contention is not acceptable.

- g. The Noticee claimed that it reported that the maximum margin utilization was by credit balance clients and the margin shortfall was Rs.9.83 lakhs. As per Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, the aggregate value of credit balances of all clients is obtained from trial balance across stock exchanges after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations. Therefore, the Noticee's contention is not acceptable.
- h. 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. As per clause 3.3.1 of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the total available funds i.e. cash and cash equivalents with the stock broker and with the Clearing Corporation/Clearing Member should always be equal to or greater than clients' funds as per ledger balance. Thus, the Noticee violated the above regulatory provisions by misusing the clients' funds.
- i. The Noticee self-reported a shortfall of clients' funds in its weekly submissions under the Enhanced Supervision of Stockbrokers to the extent of Rs.2.03 crores and Rs.2.27 crores as of November 6, 2020, and November 27, 2020, respectively.

#### 14.2. **Incorrect data reported in the weekly holding statement**

- 14.2.1. Upon verification of the weekly holding statement submitted by the Noticee vis-à-vis the monthly balances of client securities submitted by the Noticee, the back-office records and demat account statement as of January 31, 2020, the Exchange

observed that the Noticee submitted incorrect data in the weekly holding statement. The details are as under:

- a. Mismatch in the weekly holding statement vis-à-vis the monthly balances of clients' securities in 43 instances involving Rs.37.01 lakhs
- b. Mismatch in the weekly holding statement vis-à-vis demat account statement in 25 scrips involving Rs.44.46 lakhs
- c. Mismatch in the weekly holding statement vis-a-vis the back-office records -
  - i. Securities recorded in the back-office but not reported in the weekly holding statement in 24 instances involving Rs.41.73 lakhs (24 scrips of 2 clients)
  - ii. Securities reported in the weekly holding statement but not recorded in the back-office in 8 instances involving Rs.0.57 lakhs (3 scrips of 4 clients)

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

- a. It maintained separate books of accounts for head-office and branch office at Mumbai for 24 years. The Exchange advised the Noticee in the previous inspections to centralize the maintenance of books of accounts at its head-office at Coimbatore. It is in the process of merging the books of accounts including back-office and is encountering lots of glitches.
- b. The mismatch was unintentional. Since it is in the process of migrating and updating the software, certain clerical and technical error occurred in the back-office.
- c. The detail-wise explanation is as under:
  - i. Mismatch in the weekly holding statement vis-à-vis the monthly balances of clients' securities

While uploading monthly details from the back-office software, the pool account and CUSA were left unticked in the new software before generating the report. During inspection, the Exchange enquired about the difference in the uploaded weekly and monthly statements. Hence, the Noticee generated fresh reports and then realized the error in generating the reports. After rectifying the error, it generated fresh weekly and monthly reports which were tallying. It subsequently submitted the correct reports to the Exchange.

ii. Mismatch in the weekly holding statement vis-à-vis the demat account statement

In the case of Client ID No. 12505 and 33, the securities in margin account were not reflected in weekly holding statement due to technical error in the back-office. The Noticee rectified the error and subsequently closed the accounts. It provided a copy of the CMR to the Exchange.

In the case of Client ID No. 12511, the shares are right issue shares and belong to the Noticee. Hence, the Noticee did not report the shares in the weekly holding statement. The shares are sold in proprietary account.

iii. Mismatch in the weekly holding statement vis-à-vis the back-office records

In the case of Client ID No. 12505 and 33, the Noticee reported the securities available as per the back-office records in the weekly holding statement. However, the mismatch occurred due to back-office error wherein the securities in the margin accounts were not reflected. In the case of Client ID No. 12511, the Noticee sold the shares belonging to the Noticee. The Noticee submitted the latest weekly holding statement to the Exchange.

14.2.3. The Committee finds as under:

- a. The Noticee attributed the observation/violation to error in back-office while generating the reports.

- 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. Thus, the Noticee violated the regulatory provisions mentioned above by incorrectly reporting the data in the weekly holding statement to the Exchange.

#### 14.3. **Non-reconciliation of securities**

- 14.3.1. Upon verification of the securities recorded in the register of securities vis-à-vis the securities available in the demat accounts maintained by the Noticee as of January 31, 2020, the Exchange observed that the Noticee failed to reconcile 2 out of 143 scrips involving Rs.2.75 lakhs. The details are as under:

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

The non-reconciliation of securities occurred because the said scrips were in margin account and not recorded in the back-office at the time of reconciliation. The Noticee provided the statement showing the reconciliation of securities recorded in the back-office vis-à-vis the securities available in the demat accounts as of October 8, 2020.

- 14.3.3. The Committee finds as under:

- a. The Noticee attributed the observation/violation to non-recording of scrips in back-office at the time of reconciliation as the scrips were in margin account.
- b. As per the Exchange Circular No. NSE/INSP/40743 dated April 12, 2019, the Trading Member must maintain the holding statement and submit client-wise and scrip-wise for all the demat accounts where the Trading Member is holding the

client securities including own securities lying in pool, early pay-in account, own/proprietary account, collateral account, Clearing Member, or any other account where such securities are held. Hence, the violation persists.

- c. As per Exchange Circular No. NSE/INSP/10605 and NSE/INSP/29096 dated April 21, 2008, and March 11, 2015, respectively, the Trading Members are advised to periodically reconcile client beneficiary account/s and the register of securities and maintain a complete audit trail and documentation of such reconciliation. Thus, the Noticee violated the regulatory provisions mentioned above by failing to reconcile the securities recorded in the back-office periodically.

#### 14.4. **Non-settlement of clients' funds and securities**

14.4.1. Upon verification of the settlement declaration, register of securities, clients' ledgers, trial balance, and records of the Exchange, the Exchange observed that the Noticee failed to settle the accounts in 178 out of 476 instances selected for sample scrutiny (37.39% of the total sample instances). The details are as under:

a. **Active Clients**

2 instances of 1 client out of 50 instances of 25 clients selected for sample scrutiny (4% of the total sample instances) involving Rs.75.71 lakhs

b. **Inactive Clients**

Funds – 148 out of 358 clients selected for sample scrutiny (41.34 % of the total sample clients) involving Rs.33.32 lakhs as of January 31, 2020

Securities - 28 out of 68 clients selected for sample scrutiny (41.18 % of the total sample clients) involving Rs.11.56 lakhs as of January 31, 2020

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

a. **Active Clients**

During the day of settlement, the active client (Client Code - CHNC2) requested not to settle its account since the client intended to take further position. The Noticee provided a copy of the letter received from the said client.

b. **Inactive Clients**

Funds – (i) Out of 148 clients, there are very old clients whose present bank account/IFSC/demat account are not available with the Noticee. Hence, the Noticee was unable to settle their accounts. In between, few clients were active, and few clients have started trading. Hence, the Noticee settled their accounts. (ii) Out of 148 clients, 106 clients have fund balance less than Rs.10,000/-. Hence, the Noticee did not settle their accounts.

Securities – (i) There are very old clients whose present bank account/IFSC/demat account are not available with the Noticee. Hence, the Noticee was unable to settle their accounts. (ii) Most of the shares lying with the Noticee are delisted. It provided details for reference. (iii) In case of few accounts, as per Exchange Circular No. NSE/INSP/41359 dated June 20, 2019, on handling of clients' securities, the securities were sold because of debit balance and the sale value was credited in the clients' accounts.

As directed by the Exchange, the Noticee activated the proprietary trading account on October 9, 2020. After transferring all the shares in Client Code - S1000, the shares were sold in proprietary account and on the same day the proprietary account was deactivated. The sale value of Rs.5.71 lakhs will be credited in the client bank account only as the shares belongs to the Noticee.

14.4.3. The Committee finds as under:

a. **Active Clients**

The Noticee contended that the client (Client Code - CHNC2) requested not to settle its account since the client intended to take further position. The Noticee provided a copy of the letter received from the said client. As per Exchange Circular No. NSE/INSP/36889 dated February 2, 2018, obtaining an authorization from the clients to the effect that no settlement need be done for month(s)/quarter(s) is contradictory to the SEBI requirement and not permissible. Hence, the Noticee's contention is not acceptable.

The Noticee failed to submit any reply with respect to settlement of other active clients. In absence of any reply, the violation persists.

b. **Inactive Clients**

i. **Funds**

The Noticee contended that out of 148 clients, there are very old clients whose present bank account/IFSC/demat account are not available with the Noticee. Hence, the Noticee was unable to settle their accounts.

As per Exchange Circular No. NSE/INSP/43488 dated February 10, 2020, in case a Trading Member is unable to settle the client accounts due to non-availability of client's bank account and demat account details and non-traceability of client, it shall make all efforts to trace the clients to settle their funds and securities lying with them and maintain an audit trail for such efforts made for tracing such clients and settling funds and securities of such clients. In cases where Trading Member is unable to trace such clients despite all efforts taken, the Trading Member is *inter alia* directed to open one separate client bank/client collateral demat account and immediately set aside the funds and securities of these clients in such account. Hence, the Noticee's contention is not acceptable.

The Noticee contended that out of 148 clients, 106 clients have fund balance less than Rs.10,000/-. Hence, the Noticee did not settle their accounts.

As per the Exchange Circular No. NSE/INSP/24849 dated October 29, 2013, the Trading Member may retain an amount of up to Rs.10,000/- (net amount across 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. Hence, the Noticee's contention is not acceptable.

ii. Securities

The Noticee contended that there are very old clients whose present bank account/IFSC/demat account are not available with the Noticee. Hence, the Noticee was unable to settle their accounts.

As per Exchange Circular No. NSE/INSP/43488 dated February 10, 2020, in case a Trading Member is unable to settle the client accounts due to non-availability of client's bank account and demat account details and non-traceability of client, it shall make all efforts to trace the clients to settle their funds and securities lying with them and maintain an audit trail for such efforts made for tracing such clients and settling funds and securities of such clients. In cases where Trading Member is unable to trace such clients despite all efforts taken, the Trading Member is *inter alia* directed to open one separate client bank/client collateral demat account and immediately set aside the funds and securities of these clients in such account. Hence, the Noticee's contention is not acceptable.

The client code S1000 is the proprietary account of the Noticee and is used for proprietary trading and the same has been deactivated after selling all the shares. Hence,

the Noticee complied with direction of the Exchange post-inspection. However, post-inspection compliance does not absolve the Noticee from violation committed.

- c. 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, to instil 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.

14.5. **Non-maintenance of holding statement, bank book and client ledger in the prescribed standard format**

14.5.1. Upon verification of the back-office records of the Noticee, the Exchange observed that the Noticee failed to maintain the holding statement, bank books and client ledgers in the prescribed standard format.

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

It maintained the holding statement, bank book and client ledger in the prescribed standard format. Due to oversight, the statement and ledgers were generated in different format from its previous software. It provided sample holding statement, bank book and client ledger which is in the prescribed standard format.

14.5.3. The Committee finds as under:

- a. The Noticee attributed the observation/violation to oversight. Post-inspection, it submitted sample holding statement, bank book and client ledger which is in the prescribed standard format. However, post-inspection compliance does not absolve the Noticee from violation committed.

- b. As per Exchange Circular No. NSE/INSP/38743 dated August 30, 2018, a standard format for register of securities, holding statement, bank book and client ledger is prescribed to standardize the maintenance of books of accounts/records and to ensure uniformity across all Trading Members. Thus, the Noticee violated the regulatory provisions mentioned above by failing to maintain the holding statement, bank books and client ledgers in the prescribed standard format.

14.6. **Failure to assign appropriate nomenclature to demat account**

- 14.6.1. Upon verification of the demat accounts submitted by the Noticee, the Exchange observed that the Noticee failed to assign appropriate nomenclature to 1 out of 14 demat accounts. The details are as under:

Demat No.	Depository	Depository Participant	A/c Type	Status	Naming as per Client master/DP holding statement
IN30002010035585	NSDL	ORIENTAL BANK OF COMMERCE-IN300020	Client A/c	Active	Not Available

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

The clients sold physical shares nearly 20 years back and took credit of the sale proceeds. Later, these physical shares were received back under company's objection. After rectifying the objections, these shares were transferred in the Noticee's Company name. These shares now belong to the Noticee and were dematerialized in Oriental Bank of Commerce. Further, Oriental Bank of Commerce was taken over by Tamilnad Mercantile Bank Limited. Tamilnad Mercantile Bank Limited does not have an online facility; hence, the tagging request must be given in branch office at Mumbai in person. It will complete the process of tagging of the said demat account as soon as possible and submit the proof for the same to the Exchange.

14.6.3. The Committee finds as under:

- a. The Noticee stated that it bought the physical shares from the clients. Later, it dematerialized these shares in Oriental Bank of Commerce. The Noticee assured that it will undertake the process of tagging of the said demat account. However, since the Noticee failed to tag the demat account, the violation persists.
- b. As per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the bank accounts and demat accounts maintained by all stockbrokers shall have appropriate nomenclature to reflect the purpose for which those bank/demat accounts are being maintained. To maintain uniformity, the nomenclature for bank accounts and demat accounts to be followed by the stockbrokers is given in the said circular. Thus, the Noticee violated the regulatory provision mentioned above by failing to assign appropriate nomenclature to demat account.

14.7. **Failure to assign appropriate nomenclature to bank accounts**

14.7.1. Upon verification of the bank statements submitted by the Noticee, the Exchange observed that the Noticee failed to assign appropriate nomenclature to 3 out of 24 bank accounts.

Bank	A/c No.	Opening Date	Purpose	Status	Account name as per the bank statement
Indian Bank	411760590	10-4-1996	Client A/c	Active	Single Window Securities Ltd.
HDFC Bank Limited	310340000917	24-3-2003	Client A/c	Active	Single Window Securities Ltd.
State Bank of India	67043803115	11-11-2009	Client A/c	Active	Single Window Securities Ltd.

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

Out of the 3 bank accounts, A/c No. 411760590 with Indian Bank and A/c No. 67043803115 with State Bank of India were already closed on January 30, 2020, and A/c No. 310340000917 with HDFC Bank Ltd is in the process of closure.

14.7.3. The Committee finds as under:

- a. Post-inspection, the Noticee closed 2 bank accounts and is in the process of closing 1 bank account. However, post-inspection compliance does not absolve the Noticee from violation committed. Hence, the violation persists.
- b. As per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the bank accounts and demat accounts maintained by all stockbrokers shall have appropriate nomenclature to reflect the purpose for which those bank/demat accounts are being maintained. To maintain uniformity, the nomenclature for bank accounts and demat accounts to be followed by the stockbrokers is given in the said circular. Thus, the Noticee violated the regulatory provision mentioned above by failing to assign appropriate nomenclature to bank accounts.

14.8. **Material discrepancies in the retention statement issued to the clients**

14.8.1. Upon verification of the retention statement issued to the clients by the Noticee, the Exchange observed that there is mismatch in the client unencumbered balance mentioned in the retention statement vis-à-vis the balance in financial ledger of the clients in 18 instances pertaining to 10 clients out of 42 instances pertaining 22 clients selected for sample scrutiny (42.86% of total sample instances). The Noticee issued the retention statement with material discrepancies.

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

The Noticee is in process of software migration and merging of books of accounts. It is facing a lot of technical glitches during the process. The differences in client unencumbered balance mentioned in the retention statements were observed due to technical glitches. It reported the technical glitches to the software vendor who rectified the same.

14.8.3. The Committee finds as under:

- a. The Noticee attributed the observation/violation to technical glitches faced during the process of software migration and merging of books of accounts.
- b. As per Exchange Circular No. NSE/INSP/13606 and Exchange Circular No. NSE/INSP/33276 dated December 3, 2009, and September 27, 2016, the 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 considered to be settled. Thus, the Noticee violated the regulatory provision mentioned above by issuing the retention statement with material discrepancies.

14.9. **Funding of clients' transactions**

- 14.9.1. Upon verification of the client ledgers submitted by the Noticee, the Exchange observed that the Noticee granted further exposure to its clients, beyond the fifth trading day, as reckoned from the date of pay-in, despite debit balance in the clients' financial ledgers in 3 instances pertaining to 3 clients out of 65 instances pertaining to 34 clients selected for sample scrutiny (4.62% of the total sample clients) involving Rs.54.69 lakhs. The details are as under:

Sr. No.	Client Code	Amount Funded (Rs)
1	A31	11,11,693.83
2	S6	32,86,683.13
3	M18	10,70,567.93

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

The client (Client Code: S6) is Mr. Sivakumar, Director of the Noticee. The client (Client Code: M18) is the wife of the director and her account is now in credit. The clients (Client Code: S6 and M18) reduced their debit balance by selling their shares. The account of client (Client Code: A31) is the Authorized Person's HUF account. The available balances in the accounts of the clients as of October 9, 2020, is as under:

Sr. No.	Client Code	Amount Funded (Rs)
1	A31	73762.59 (debit)
2	S6	1772724.74 (debit)
3	M18	24614.39(credit)

14.9.3. The Committee finds as under:

- a. The Noticee contended that it granted exposure to the clients, viz. director, spouse of the director and Authorized Person. The Noticee's contention is not tenable because the Trading Members are not allowed to grant exposure to any of its clients irrespective whether they are related entities or have sufficient balances in their ledgers without clearing the earlier debits in their respective accounts. Hence, the violation persists.
- b. As per Exchange Circular No. NSE/INSP/35184 dated June 23, 2017, the stockbrokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continue beyond the fifth trading day, as reckoned from the date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, or as may be issued from time to time. Thus, the Noticee violated the regulatory provisions mentioned above by granting further exposure to the clients.

**14.10. Incorrect data reported in the weekly monitoring of clients' funds**

14.10.1. Upon verification of the data submitted in the weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of January 24, 2022, vis-à-vis the trial balance, bank statements, and the records of the Exchange/Clearing Corporation/Clearing Member pertaining to margin requirements and collaterals maintained by the Noticee, the Exchange observed that the Noticee submitted incorrect data to the Exchange in the following 6 areas and the differential amounts ranged from (-ve) Rs.11 crores to Rs.4.40 crores.

Sr.	Particulars
A	Aggregate of fund balances available in all client bank accounts
B	Aggregate value of collateral deposited with Clearing Corporation/Clearing Member
C	Aggregate value of credit balances of all clients as obtained from trial balance across Stock Exchanges
D	Aggregate value of debit balances of all clients as obtained from trial balance across Stock Exchanges
MC	Aggregate value of margin utilized for positions of credit balance clients
MF	Aggregate value of free/unblocked collateral deposited with Clearing Corporation/Clearing Member

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

- a. The differences observed were unintentional.
- b. *Total of day end balance in all client bank and settlement bank account* - The difference occurred due to the amount credited by the bank towards interest receivables.
- c. *Total credit balance of all clients*: The difference occurred as the Noticee considered the value after adjusting the margin obligation as mentioned in the circular which states that "Aggregate value of credit balances of all clients as obtained from trial balance across stock exchanges after adjusting for open bills of clients, uncleared cheques deposited by clients

and uncleared cheques issued to clients and the margin obligations”.

- d. *Other differences:* The Noticee was in process of merging the books of accounts. It submitted the data from the report generated from the previous software, whereas during inspection, the report was generated from the new software. The difference was due to issue in the back-office software while reconciliation. It reported the issue to the vendor who subsequently rectified the issue.

14.10.3. The Committee finds as under:

- a. The Noticee stated that the differences were unintentional.
- b. *Total of day end balance in all client bank and settlement bank account* - The Noticee attributed the observation/violation to the amount credited by the bank towards interest receivables. The Noticee is required to consider clear balances while reporting the end of the day balances to the Exchange. Hence, the violation persists.
- c. *Total credit balance of all clients:* The Noticee attributed the observation/violation to consideration of the value after adjusting the margin obligations. Upon verification, it is observed that the Noticee should have reported the aggregate value of credit balance clients as per the trial balance. Hence, the violation persists.
- d. *Other differences:* The Noticee attributed the observation/violation to issue in the back-office software.
- e. As per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the Stock Exchanges have put in place a mechanism for monitoring clients' funds lying with the stockbroker to generate alerts on any misuse of clients' funds by stockbrokers. The Trading Members should ensure to verify the data before submission to the Exchange. Thus, the Noticee violated the regulatory provisions mentioned above by reporting incorrect data for weekly monitoring of clients' funds to the Exchange.

14.11. **Incorrect data reported in the monthly balances of clients' funds and securities**

14.11.1. Upon verification of the data submitted by the Noticee in the monthly balances of clients' funds and securities as of January 31, 2020, vis-à-vis trial balance, register of securities, demat holding statements, UCC records, the Exchange observed that the Noticee submitted incorrect data to the Exchange. The following discrepancies were observed in the monthly holding statement:

- a. Securities available in the demat account but not reported in the monthly balances - 54 out of 143 instances involving Rs.81.47 lakhs
- b. Securities recorded in the back-office but not reported in the monthly balances - 67 out of 143 instances involving Rs.78.35 lakhs
- c. Mismatch between the monthly balances of clients' funds balances reported by the Noticee and the balances as per the trial balance - 349 out of 1228 clients

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

- a. The mismatches were unintentional and due to error in back-office software.
- b. *Securities available in demat account and back-office records but not reported in the monthly balances* - In the new software, the options for selecting transactions in accounts were to be done manually and the securities in the pool account and client unpaid securities account were left unticked while generating the report. Hence, the differences were observed. The Noticee rectified the error and there are NIL mismatches. It provided the monthly holding report. Further, for the mismatch in the client's account (Client Code: S1000), the Noticee reiterated its submission mentioned in paragraph 14.2.2.

- c. *Mismatch between the monthly balances of clients' funds reported by the Noticee and the balances as per the trial balance:* The Noticee reiterated its submission mentioned in paragraph 14.10.2.

14.11.3. The Committee finds as under:

- a. The Noticee attributed the observation/violation to error in back-office software and clerical error while generating the report.
- b. As per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the stock exchanges shall put in place a mechanism and ensure that stockbrokers upload the clients' funds and securities data every month for every client onto each stock exchange system where the broker is a member. Thus, the Noticee violated the regulatory provisions mentioned above by submitting incorrect data in the monthly balances of clients' funds and securities.

**SCN-2**

**14.12. Unwarrantable Business**

- 14.12.1. Upon review of the Noticee's books of accounts from Financial Years 2011-12 to 2020-21, it is observed that the Noticee raised deposits to the tune of Rs.117 lakhs from 9 entities. These entities are also the Noticee's clients. It is further observed that these deposits were not accepted in connection with any trade obligation. These deposits were maintained in a separate account and the Noticee was paying a fixed rate of return to the said clients. The periodicity of these returns is either monthly or yearly. There is no documentary evidence provided during the inspection to validate the purpose of acceptance of such deposits and payment of interests thereof. The details of acceptance of deposits and the rate and periodicity of the returns are as under:

**Details of Acceptance of deposits**

F.Y.	Opening Balance (Rs)	Deposits (Rs)	Withdrawal (Rs)	Closing Balance (Rs)	Interest (Rs)	Profit/Loss (Rs)
11-12	-	31,00,000	-	31,00,000	Not provided	(65,79,321)
12-13	31,00,000	6,00,000	10,00,000	27,00,000	4,65,000	(9,98,367)
13-14	27,00,000	6,00,000	-	33,00,000	5,16,650	(13,01,438)
14-15	33,00,000	14,50,000	-	47,50,000	7,10,720	10,41,568
15-16	47,50,000	33,00,000	-	80,50,000	9,01,925	3,32,618
16-17	80,50,000	8,00,000	18,00,000	70,50,000	10,45,750	(81,331)
17-18	70,50,000	-	7,50,000	63,00,000	10,38,616	1,10,321
18-19	63,00,000	18,50,000	10,00,000	71,50,000	11,51,289	2,57,165
19-20	71,50,000	-	18,50,000	53,00,000	10,95,000	(20,00,712)
20-21	53,00,000	-	53,00,000	-	78,000	-
<b>TOTAL</b>		<b>1,17,00,000</b>	<b>1,17,00,000</b>	<b>-</b>	<b>70,02,950</b>	<b>-</b>

**Rate and periodicity of returns**

Client	Deposits (Rs)	Rate	Repayment (Rs)	Prior to FY. 18-19	F.Y. 18-19 onward
Mr. Vasudev R Dave	23,00,000	15%	13,97,375	Monthly	Monthly
Mr. Venkatachalapathy	10,00,000	18%	14,67,500	Monthly	Monthly
Mrs. Radha Venkatachalapathy	10,00,000	18%	14,67,500	Monthly	Monthly
Mr. Omprakash Saraf	10,00,000	18%	5,14,675	Yearly	Yearly
Omprakash Saraf HUF	10,00,000	-	5,54,177	Yearly	Yearly
Mrs. Ritu Rajgarhia	8,25,000	18%	6,60,252	Yearly	Yearly
Ms. Prachi Ritu	8,25,000	18%	3,97,096	Yearly	Yearly
Mrs. Gita Saraf	5,00,000	18%	4,24,375	Yearly	Yearly
Mr. P Sundaram	1,00,000	15%	1,20,000	Monthly	Monthly

In view of the above, it is observed that the Noticee was engaged in an activity of providing assured returns on the clients' deposits.

14.12.2. In reply to the SCN-2, the Noticee submitted as under:

- a. The Noticee received loan of Rs.1.17 crores from 9 entities during the period 2011-12 to 2020-21 and deposited in the client bank A/c. No. 200002567017 with IndusInd Bank. This was reported as unwarrantable business. The amount was borrowed essentially to meet the working capital requirement; hence, the transaction was not carried in any business mode. The reference can be taken from the clause 2(6) of the Memorandum of Association (MOA) by virtue of which the Noticee's Company can receive, borrow, or raise money in such manner as it may think fit, particularly, by issue of shares, debentures, and to secure repayment of any monies borrowed, raised or owing to mortgage, charge or lien upon all or any of the assets of the company. Further, there was withdrawal of deposits. The Noticee repaid the amount once it had internal accruals to manage the working capital requirement and to reduce the interest burden
- b. It is incorrect to say that the Noticee was engaged in providing assured returns to the clients. The observation was not supported by any evidence to show that assured returns were given to the lenders of loan barring the interest payment, which is common in any loan transaction entered by any company. It provided an extract of the MOA of the Noticee's Company.

14.12.3. The Committee finds as under:

- a. The Noticee claimed that it received loan of Rs.1.17 crores from 9 entities during the period 2011-12 to 2020-21 and deposited the loan amount in the client bank account No. 200002567017 maintained with IndusInd Bank. The funds were borrowed essentially to meet working capital requirement and the MOA of the Noticee's Company provides the rights to the company to borrow funds. The Noticee referred to clause 2(6) of MOA by virtue of which it can receive, borrow, or raise monies by issue of shares, debentures.

The Committee notes that the 9 entities are the Noticee's clients. The Noticee's claim is not tenable as engaging in

businesses other than securities like loan arrangement with clients/entities, collecting money in the form of deposit or otherwise by offering fixed/guaranteed/periodic returns orally or in writing, extending corporate guarantees etc. is in contravention of Rule 8(3)(f) of SCRR. The Committee further notes that the funds were recorded by the Noticee in its books of accounts as “Deposits from Clients – 367” and not as “Loans”.

- b. As per Rule 4 (f) of Chapter IV of the Rules of the Exchange, a Trading Member shall be deemed guilty of unbusinesslike conduct if it engages in reckless or unwarrantable or unbusinesslike dealings in the market or effects purchases or sales for its constituent’s account or for any account in which it is directly or indirectly interested which purchases or sales are excessive in view of its constituent’s or his own means and financial resources or in view of the market for such security.

#### 14.13. **Misuse of clients' funds**

14.13.1. The SCN-1 dated September 30, 2020, included an observation/violation pertaining to misuse of clients’ funds to the extent of Rs.5.73 crores as of 24 January 2020. During the forensic audit, while reviewing the ledger account “Deposits from Clients – 367”, it is observed that the Noticee accepted deposits since Financial Year 2011-12 amounting to Rs.1.17 crores from 9 clients mentioned above. The Noticee repaid Rs.10 lakhs in December 2018, i.e. before the date of identification of misuse of clients’ funds, from the client bank A/c. No. 200002567017 (IndusInd Bank). Subsequently, the Noticee repaid Rs.43 lakhs on two dates, i.e. May 11, 2020, and May 29, 2020, from the client bank A/c. No. 200002567017 (IndusInd Bank) thereby resulting in misuse of clients’ funds. Although the Noticee did not have any obligation to pay 5 out of 9 clients on account of their trading activities, yet the Noticee repaid funds from the client bank account. Thus, the Noticee misused the funds from the client bank accounts to meet its obligations of non-trade activities.

During the forensic audit, the Auditor verified the derived/reconstructed client balances, balances available in bank

accounts, records of the Clearing Corporation and Clearing Member pertaining to cash collaterals. Post-verification, it is observed that the above stated misuse/shortfall of clients' funds of Rs.43 lakhs increased to Rs.87.15 lakhs as of April 30, 2021.

14.13.2. In reply to the SCN-2, the Noticee submitted as under:

a. Misuse of clients' funds on account of repayment of deposits from client bank account

The Noticee borrowed funds from 9 entities to meet the working capital requirements. The funds were returned to the borrowers to reduce the expenses. The Noticee made last refund of Rs.43 lakhs on May 11, 2020, and May 29, 2020. The borrowed funds were deposited in the client bank A/c. No. 200002567017; hence, the refund of the borrowings was done from the same bank account. There is no misuse of funds. The Noticee sent request for surrender of membership to the Exchange on April 23, 2021.

b. Misuse of clients' funds as of April 30, 2021

There was a shortfall of clients' funds to the extent of Rs.87.15 lakhs as of April 30, 2021. The Noticee recouped the shortfall by borrowing funds from directors and their relatives. It paid all credit balances of the clients by end of May 2021, i.e. prior to the commencement of forensic audit. The reason for the shortfall was non-payment of the dues by debtors. The Noticee provided bank statements from April 2020 to March 2022 in support of its claim.

14.13.3. The Committee finds as under:

a. Misuse of clients' funds on account of repayment of deposits from client bank account

The Exchange, vide its email dated July 15, 2022, requested the Noticee to provide supporting documents. However, the

Noticee failed to provide any reply. In absence of reply from the Noticee, the violation persists.

b. Misuse of clients' funds as of April 30, 2021

The Noticee claimed that it recouped the shortfall of clients' funds by borrowing funds from directors and their relatives. The Exchange, vide its email dated July 15, 2022, requested the Noticee to provide supporting documents to verify the recoupment of the shortfall. The Noticee, vide its email dated August 9, 2022, and August 16, 2022, submitted the documents. Upon verification, it is observed that the Noticee did not recoup the shortfall. Hence, violation persists.

Further, the Noticee claimed that it paid all credit balances of the clients by the end of May 2021, i.e. prior to the commencement of forensic audit. The Committee notes that the total client payables of its top 30 credit balance clients is Rs.72 lakhs as of August 1, 2022. Hence, the Noticee's claim is not acceptable.

- c. 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. As per clause 3.3.1 of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the total available funds i.e. cash and cash equivalents with the stock broker and with the Clearing Corporation/Clearing Member should always be equal to or greater than clients' funds as per ledger balance. Thus, the Noticee violated the above regulatory provisions by misusing the clients' funds.

14.14. **Discrepancy in maintenance of books of accounts**

- 14.14.1. The observations pertaining to maintenance of books of accounts are as under:

a. **Incorrect fund balances in client ledgers**

The fund balances of clients were reconstructed based on the trade data of the Exchanges, transaction in the bank statement etc. It is observed that as of April 30, 2021, –

- i. As per the client ledgers maintained by the Noticee, the total credit balance of 727 clients was Rs.24.86 lakhs whereas as per the derived/reconstructed client ledgers, the total credit balance of 727 clients was Rs.1.59 crores. Thus, the Noticee understated the credit balance of 727 clients by Rs.133.97 lakhs.
- ii. As per the client ledgers maintained by the Noticee, the total debit balance of 214 clients was Rs.93.15 lakhs whereas as per the derived/reconstructed client ledgers, the total debit balance of 214 clients was Rs.308 lakhs. Thus, the Noticee understated the debit balance of 214 clients by Rs.214.47 lakhs.

b. **Inter-client adjustments between 5 client accounts linked to Mr. R. Krishnaswamy (director of the Noticee)**

Upon review of the UCC details, it is observed that 5 clients are potentially linked to Mr. R. Krishnaswamy, Director of the Noticee. The nature of relationship of 5 clients with Mr. R. Krishnaswamy are as under:

***Details of the nature of relationship of the five clients with Mr. R. Krishnaswamy***

Sr. No.	Client Name	UCC	Relation with Mr. R. Krishnaswamy
1	Mr. R. Krishnaswamy	R32	Mr. R. Krishnaswamy's trading account
2	Mrs. Chitrabhanu	C32	Wife of Mr. R. Krishnaswamy
3	Sripathi Paper & Board Private Limited	S150	Entity in which Mr. R. Krishnaswamy holds directorship

4	Sri Krishna Investments	S95	Proprietary firm of Mrs. Chitrabhanu– wife of Mr. R. Krishnaswamy
5	Krishna Investments	K95	Proprietary firm of Mrs. Chitrabhanu – wife of Mr. R. Krishnaswamy
6	Sri Krishna & Co.	S3	Proprietary firm of Mr. R. Krishnaswamy

It is observed that there were multiple instances wherein the Noticee transferred balances amongst the above stated 6 clients' accounts. These transfers were effected through journal entries and the amount involved in such transfers is Rs.2.77 crores. The summary of movement of funds between 5 clients and Mr. R. Krishnaswamy are as under:

Sr. No.	Client Name	Debit (Rs)	Credit (Rs)
1	Mr. R. Krishnaswamy	1,29,83,415.60	1,27,69,210.40
2	Mrs. Chitrabhanu	-	-
3	Sripathi Paper & Board Private Limited	-	1,22,69,210.40
4	Sri Krishna Investments	-	4,12,419.15
5	Krishna Investments	-	3,57,999.49
6	Sri Krishna & Co.	1,31,81,629.55	18,80,112.12
<b>Total</b>		<b>2,76,88,951.56</b>	<b>2,76,88,951.56</b>

c. **Transfer of funds between multiple clients by way of journal entries**

- i. The Noticee maintained two separate ledger accounts, viz. a trade account and a corresponding non-trade accounts (O-series account) in case of 8 clients.

Further, it is observed that the Noticee transferred the balances pertaining to trade accounts of the clients to either its corresponding non-trade accounts or non-trade account of other clients through journal entries.

The list of 8 clients having two separate ledger accounts (trade and non-trade) and summary of transfers between trade and non-trade accounts are as under:

**List of clients**

<b>Sr. No.</b>	<b>Client</b>	<b>Trade Account (UCC)</b>	<b>Non-Trade Account (Ledger Code)</b>
1	Share Point / N. Muthukumar	S118	SO118
2	Mitesh Dave	M28	MO28
3	Manoharan G.	M72	MO72
4	R. Krishnaswamy	R32	RO32
5	Selvaraj R.	S7	SO7
6	Vikarant Management Services Private Limited	V47	VO47
7	Varsha Dave	V009	VO09
8	Megastox Fin Research Private Limited	M9	MO9

**Summary of transfers**

<b>Sr. No.</b>	<b>Accounts Involved in Fund Transfer</b>	<b>Amount (in Rs.)</b>
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1.	MO72 and M72	1,48,60,824.53
2.	VO47 and multiple trade accounts	74,50,000.00
3.	MO9 and M9	8,00,000.00
4.	RO32 and R32	2,42,401.40
Total		2,33,53,225.93

- ii. Upon further review of the books of accounts during the forensic audit, it is observed that the erstwhile auditor of the Noticee was Bakthavachalam & Co. Further, a client account was observed in the name of "Stream Propertys Private Limited" with Client Code HS005. The nature of relationship of the trade account "Stream Propertys Private Limited" and non-trade account "Bakthavachalam & Co." with the erstwhile auditor is as under:

**Accounts related to erstwhile Auditor of the Noticee**

Sr. No.	Account Name	Nature of A/c	UCC /Ledger Code	Nature of Relationship with the erstwhile Auditor
1	Stream Propertys Private Limited	Trade	UCC - HS005	Mr. Ramaswamy Bakthavachalam is a director in Stream Propertys Private Limited' and is also a partner in the erstwhile auditing firm of the Noticee viz. Bakthavachalam & Co.
2	Bakthavachalam & Co.	Non-Trade	Ledger Code: 407	Belongs to the erstwhile auditing firm of the Noticee viz. Bakthavachalam & Co.

Further, it is observed that the Noticee intermittently parked entire outstanding debit balance pertaining to the trade account of Stream Propertys Private Limited in the non-trade account Bakthavachalam & Co. as of January 15, 2019, and September 30, 2019, thereby artificially reducing the total debit balance in the trade account of Stream Propertys Private Limited through journal entries.

14.14.2. In reply to the SCN-2, the Noticee submitted as under:

a. Incorrect fund balances in client ledgers

- i. The Noticee was enabled in 3 segments i.e. CM, F&O and CD segments. Accordingly, the balances were be maintained. However, while reconstructing the client balances, the forensic auditor failed to consider some entries. This resulted in incorrect balances in almost all the client ledgers. While submitting the data to the Exchange, it considered all the balances.
- ii. The Noticee provided client balance ledger to the forensic auditor where all the client balances have been reconciled with the ledgers. Hence, there is no discrepancy in the clients' balances vis-à-vis ledger balances. Further, there is no discrepancy in the maintenance of books of accounts.
- iii. There is no pending payment to any of its creditors before the commencement of the forensic audit.
- iv. The Noticee did not receive any complaint from its creditors for shortfall of payment.
- v. Regarding books of accounts at branch office at Mumbai, the software maintained at branch office at Mumbai did not have provision for segregating the details of brokerage, securities transaction tax, SEBI charges, transaction charges, and GST. The forensic auditor considered the balances without breakup.
- vi. There are two types of software, viz. M/s. Zillon Technologies Software (used at Coimbatore office as back-office software for last 10 years) and M/s. Comtek Software (used at branch office at Mumbai for more than 15 years). The use of both software is approved by the Exchange. The Exchange files are downloaded on a regular basis through FTP every day and the system automatically process the daily trades and passes charges to all the clients. The other charges such as pay-out/STT/SEBI charges/SEBI turnover

charges as per the records of the Exchange are manually tallied at the Noticee's end. The Clearing Bank account and the Exchange accounts are reconciled every day without any discrepancies. At the end of the day, the contract notes are sent to clients to their registered email address and the clients are permitted to view their daily transaction through back-office software. Further, the client can check the holdings in the demat account every day.

- vii. The Exchange sends SMS to all the traded clients every day of their balances, and positions to the registered numbers. In addition, the Exchange and CDSL send SMS/statements and email of the balances available in the account and holding balances on a weekly/monthly basis to all the clients.
  - viii. As per the Exchange instruction, the Noticee sends statement of accounts to all clients quarterly and yearly through their registered email address. There is nothing on record to show that there are discrepancies in the maintenance of books and accounts.
  - ix. The Noticee provided a copy of client balance ledger submitted to the forensic auditor.
- b. Inter-client adjustments between 5 client accounts linked to Mr. R. Krishnaswamy (director of the Noticee)
- i. The journal vouchers were passed for consolidation of accounts and the payments have been made to close all 5 accounts.
  - ii. R32 and C32 are only trading accounts. The other accounts are non-trading accounts.
  - iii. Most of the journal entries were passed among the clients. For example – (Client Codes: M72 and MO72, R32 and R032, M9 and M09)

The account of Mr Manoharam G (client code M72) was debited with Rs.29 lakhs towards short margin penalty which he has not accepted. Hence, the same has been kept in account of client code: M072.

It was mutually agreed that on a monthly basis, the brokerage amount will be reversed so as to set off the penalty amount.

iv. The Noticee provided ledger showing NIL balances in support of its claim.

c. Transfer of funds between multiple clients by way of journal entries

The Noticee did not submit any reply in this regard.

d. Outstanding debit balance pertaining to the trading account of Stream Propertys Private Limited in the non-trade account, Bakthavachalam & Co.

M/s Stream Propertys Private Limited (SPPL) purchased shares in which Mr Bakthavachalam, is a director. SPPL was considered like any other client as there was no beneficial interest between the Noticee and SPPL. Further, the shares held by SPPL were sold on September 2, 2020, and there was a debit balance of Rs.3,69,793. There was no other transaction with the Noticee.

The Noticee provided SPPL's ledger in support of its claim. Since SPPL was an independent entity and not a related party of the Noticee, the transaction was allowed and was within the objective of the company. Hence, there are no other transactions which would impair the independence of the auditor.

14.14.3. The Committee finds as under:

a. Incorrect fund balances in client ledger

The Exchange, vide its email dated July 15, 2022, requested the Noticee to provide specific entries which were not considered by the forensic auditor while reconstructing the client balances along with supporting documents, i.e. client trial balance, general trial balance, ledgers, bank statements, contract notes, margin files etc. However, the Noticee failed to provide any reply. In absence of reply from the Noticee, the violation persists.

Further, the non-receipt of any complaints from the clients and issuance of statements to the clients does not absolve the Noticee from the observation pertaining to material discrepancies in the maintenance of the books of accounts.

b. Inter-client adjustments between 5 client accounts linked to Mr. R. Krishnaswamy (Director of the Noticee)

The Noticee stated that the journal vouchers were passed for consolidation of accounts and the payments have been made to close all 5 accounts. As per Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, there shall be no inter-client adjustments for the purpose of settlement of the 'running account'. Hence, the violation persists.

c. Transfer of funds between multiple clients by way of journal entries

The Noticee failed to provide any specific reply to the observed violation. The Exchange, vide its email dated July 15, 2022, requested the Noticee to provide its reply. However, the Noticee failed to provide any reply. In the absence of reply from the Noticee, the violation persists.

d. Outstanding debit balance pertaining to the trading account of Stream Property Private Limited in the non-trade account Bakthavachalam & Co.

The Noticee contended that SPPL was an independent entity and not a related party of the Noticee. The transaction was allowed and was within the objective of the Company. However, the Noticee failed to provide any reasons for intermittently parking the entire outstanding debit balance pertaining to the trading account of Stream Propertys Private Limited in the non-trade account of Bakthavachalam & Co. as of January 15, 2019, and September 30, 2019, thereby artificially reducing the total debit balance in the trading account of Stream Propertys Private Limited through journal entries.

- e. As per Regulations 6.1.1 and 6.1.2 of NSEIL Regulations (CM and F&O Segments) and Regulation 6.1.5 (e) of Exchange Regulations (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. As per Exchange Circular No NSE/INSP/38743 dated August 30, 2018, a standard format for register of securities, holding statement, bank book and client ledger is prescribed to standardize the maintenance of books of accounts/records and to ensure uniformity across all Trading Members. Thus, the Noticee violated the regulatory provisions mentioned above by maintaining the books of accounts with material discrepancies.

14.15. **Non-settlement of funds and securities of inactive clients**

- 14.15.1. Upon verification of the books of accounts and client ledgers, it is observed that the Noticee failed to settle the accounts of 6 inactive clients amounting to Rs.12.44 lakhs who had not traded for a period of more than two years. The longstanding credit balances of these clients were transferred to a non-trade account viz. "Kadir Mill Group" bearing ledger code No. 477 as of April 9, 2021.

14.15.2. In reply to the SCN-2, the Noticee submitted as under:

The Noticee received authorization letters from the clients to keep the amounts separately. The authorization letters were provided to the forensic auditors for their reference. The Noticee provided copies of the authorization letters to the Exchange in support of its claim. However, the amounts will be paid to the clients when it receives the deposits from Clearing Member and the Exchange after surrendering its membership as it does not have fund flow in the company.

14.15.3. The Committee finds as under:

- a. The Noticee attributed the observation/violation to authorizations received from the clients to maintain the amounts separately and non-availability of funds to settle the clients' accounts. The contention of the Noticee is not acceptable as the settlement of client accounts is mandated by SEBI and cannot be withheld based on authorizations received from the clients. As per Exchange Circular No. NSE/INSP/36889 dated February 2, 2018, obtaining of authorization from the clients to the effect that no settlement need be done for particular month(s)/quarter(s) is contradictory to the SEBI requirement and hence not permissible.
- b. The Exchange, vide its email dated July 15, 2022, requested the Noticee to provide settlement details. However, the Noticee failed to provide any reply. In absence of reply from the Noticee, the violation persists.
- c. 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, to instil 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.

**14.16. Conflict of interest with Statutory Auditor**

14.16.1. During the forensic audit, it is observed that the trade account of “Stream Property Private Limited” was related to the non-trade account of Bakthavachalam & Co. One of the directors of M/s Stream Property Private Limited is Mr. Ramaswamy Bakthavachalam, who is also a partner in the erstwhile auditing firm of the Noticee, viz. M/s Bakthavachalam & Co. Further, M/s Stream Property Private Limited had a debit balance of Rs.14.90 lakhs as of March 31, 2018, thereby making the auditor, “Bakthavachalam & Co” ineligible to be appointed as an auditor of the Noticee for the financial year 2017-18, on grounds of conflict of interest.

14.16.2. In reply to the SCN-2, the Noticee submitted as under:

- a. SPPL purchased shares in which Mr Bakthavachalam is a director. SPPL was considered like any other client as there was no beneficial interest between the Noticee and SPPL. Further, the shares held by SPPL were sold on September 2, 2020, and there was a debit balance of Rs.3.70 lakhs. There was no other transaction with the Noticee. The Noticee provided SPPL’s ledger in support of its claim.
- b. Since SPPL was an independent entity and not a related party of the Noticee, the transaction was allowed and was within the objective of the Company. Hence, there are no other transactions that would impair the independence of the auditor.

14.16.3. The Committee finds as under:

- a. The Noticee claimed that there were no other transactions which would impair the independence of the auditor. The Noticee’s claim is not tenable as the trading account of SPPL was related to the non-trade account (Bakthavachalam & Co.) and one of the directors of SPPL is Mr. Ramaswamy Bakthavachalam, a partner in the erstwhile auditing firm of the Noticee.

As per the clause under “Certificate for internal audit” to be provided by internal auditor, it is stated that “We declare that we do not have any direct/indirect interest in or relationship with the member or its shareholders/directors/partners/proprietors /management, other than the proposed internal audit assignment and also confirm that we do not perceive any conflict of interest in such relationship / interest while conducting internal audit of the said member.”

SPPL had a debit balance of Rs.14.90 lakhs as of March 31, 2018, thereby making the Auditor "Bakthavachalam & Co" ineligible to be appointed as an auditor of the Noticee for the financial year 2017- 18, on the ground of conflict of interest. Hence, the violation persists.

- b. As per Section 141(3) of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014, a person who, or his relative or partner is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as may be prescribed, shall not be eligible for appointment as an auditor of a company. Further, as per Exchange Circular No. NSE/INSP/2016/33276 dated September 27, 2016, Stock Exchanges shall ensure that stockbrokers obtain declaration stating that the internal auditor or its directors/partners have no interest in or relation with the stockbroker concerned other than the proposed internal audit assignment from the internal auditor and shares the same with the Stock Exchange. Thus, the Noticee violated the regulatory provisions mentioned above by having conflict of interests with statutory auditors.

#### 14.17. **Funding of clients' transactions**

- 14.17.1. Upon sample review of the client ledgers and trade data during the forensic audit, it is observed that the Noticee granted further exposure to its clients, beyond the fifth trading day, as reckoned from the date of pay-in, despite debit balance in the clients'

financial ledgers in 11 instances pertaining to 2 clients involving Rs.1.45 lakhs.

14.17.2. In reply to the SCN-2, the Noticee submitted as under:

The Noticee granted exposure limits to the Mr. J Ganeshan (Client Code: G109) and Mrs. Shanbagam (Client Code: S219) against their collaterals which is a permitted transaction as per the Exchange. The Noticee provided a copy of client ledgers in support of its claim.

14.17.3. The Committee finds as under:

- a. The Noticee claimed that the exposure was granted to the clients against their collaterals which are permitted transaction as per the Exchange. The Noticee provided copies of ledger of the clients. However, the Noticee failed to provide any supporting documents with respect to collaterals in support of the claims. The Exchange, vide its email dated July 15, 2022, requested the Noticee to provide supporting documents with respect to collateral details along with MTR files uploaded to the Exchange for Client Codes G109 and S219. However, the Noticee failed to provide any reply. In absence of reply from the Noticee, the violation persists.
- b. As per Exchange Circular No. NSE/INSP/35184 dated June 23, 2017, the stockbrokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continue beyond the fifth trading day, as reckoned from the date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, or as may be issued from time to time. Thus, the Noticee violated the regulatory provisions mentioned above by granting further exposure to the clients.

**14.18. Non-reconciliation of securities**

14.18.1. During the forensic audit, it is observed that the securities as per the reconstructed register of securities were not recorded in the register of securities maintained by the Noticee as of April 30, 2021, as under: -

- a. Securities payable to clients were not recorded in register of securities maintained by the Noticee in 584 instances amounting to Rs.3.99 crores
- b. Securities receivable from clients were not recorded in register of securities maintained by the Noticee in 878 instances amounting to Rs.13.85 crores

Further, based on the details received from the Depositories, securities worth Rs. 4 lakhs (Portfolio Value is Rs. 4 lakhs as per demat statement) were available in Demat Account No. 12072600 00000048.

14.18.2. In reply to the SCN-2, the Noticee submitted as under:

- a. The reconciliation of clients' balances was done daily. Hence, there is no difference in the holdings. As per the clients' request, the balances are transferred to another demat account, and the shares are sold immediately to reduce the debit balance of the client.
- b. CDSL conducted an audit on December 6, 2021, and December 7, 2021, for the period January 1, 2020, to November 30, 2021. Pursuant to the audit, CDSL submitted a clean report. The Noticee provided a copy of the report to the Exchange in support of its claim.
- c. The Noticee never received any complaint from any client on non-receipt of their holdings.

14.18.3. The Committee finds as under:

- a. The Noticee failed to provide the details of the reconciliation of clients' balances to substantiate its claim that there is no difference in holdings. The Exchange, vide its email dated July 15, 2022, requested the Noticee to provide relevant supporting documents, viz. register of securities extracted from back-office, holding and transaction statements of CDSL/NSDL and holding and transaction statement for demat account No. 1207260000000048 etc. After considering the same, the violation stands as under:

Particulars	Clients	Value (INR)	Remarks
Payable Balance	7	2,72,141.90	Payable from the Noticee to clients
Receivable Balance	45	2,06,44,059.24	Receivables from clients to the Noticee

- b. Exchange Circular No. NSE/INSP/40743 dated April 12, 2019, explicitly states that the Trading Member must maintain the holding statement and submit client-wise and scrip-wise for all the demat accounts where the Trading Member is holding the client securities including own securities lying in pool, early pay-in account, own/proprietary account, collateral account, Clearing Member, or any other account where such securities are held.
- c. As per Exchange Circular No. NSE/INSP/10605 and NSE/INSP/29096 dated April 21, 2008, and March 11, 2015, respectively, the Trading Members are advised to periodically reconcile client beneficiary account/s and the register of securities and maintain a complete audit trail and documentation of such reconciliation. Thus, the Noticee violated the regulatory provisions mentioned above by failing to reconcile the securities periodically.

**14.19. Misuse of clients' securities**

14.19.1. During the forensic audit, it is observed that the securities recorded in the reconstructed register of securities are neither recorded in the register of securities as maintained by the Noticee nor available in the demat accounts. As per the reconstructed register of securities, in 584 instances amounting to Rs. 3.99 crores, securities were payable to clients as of April 30, 2021. Out of the same, only securities worth Rs. 5,887/- were available in demat A/c. No. 12072600 00000048. Hence, there is a shortfall of securities payable to the clients in the case of 188 scrips (Quantity: 3,05,735) involving Rs.3.99 crores.

14.19.2. The Noticee did not reply to the observation/violation.

14.19.3. The Committee finds as under:

- a. The Noticee failed to reply to the observation/violation. In absence of any reply, 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 the constituent's securities or funds. Exchange Circular No. NSE/INSP/29096 dated March 11, 2015, Trading Members are advised to ensure that the funds & securities available in the client bank/s and client beneficiary account/s 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. Thus, the Noticee violated the regulatory provisions mentioned above by misusing the clients' securities.

**14.20. Incorrect data uploaded in the weekly client-level cash and cash equivalent balances**

14.20.1. Upon verification of the data submitted by the Noticee in the weekly client-level cash and cash equivalent balances vis-à-vis the reconstructed ledger balances as of April 30, 2021, it is observed

that the Noticee submitted incorrect data to the Exchange as under:

- a. Mismatch in the ledger balance reported by the Noticee in the client-level cash and cash equivalent balances vis-à-vis the reconstructed ledger balances in 756 instances involving Rs.3.41 crores
- b. Failure to report ledger balances in the client-level cash and cash equivalent balances by the Noticee in 260 instances involving Rs.0.26 crore including 6 inactive clients whose credit balances were transferred to a non-trade account as of April 12, 2020, involving Rs.12.44 lakhs (2 clients were reported as zero).

14.20.2. In reply to the SCN-2, the Noticee submitted as under:

There are no differences in the cash and cash equivalent balances. While reconciling the reconstructed ledger balances with the cash and cash equivalents, the forensic auditor failed to consider certain entries in the reconciliation.

14.20.3. The Committee finds as under:

- a. The Noticee failed to provide relevant supporting documents to substantiate its claim. The Exchange, vide its email dated July 15, 2022, requested the Noticee to provide relevant supporting documents, viz. client trial balance, general trial balance, ledgers, bank statements, contract notes, margin files etc. However, the Noticee failed to provide any reply. In the absence of reply from the Noticee, the violation persists.
- 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. Thus, the Noticee violated the regulatory provisions

mentioned above by incorrectly reporting the data towards the client-level cash and cash equivalent balances.

**14.21. Use of client bank account for purposes other than specified**

14.21.1. Upon reviewing the ledger account “Deposits from Clients – 367”, it is observed that since financial year 2011-12, the Noticee accepted interest rate bearing deposits amounting to Rs.1.17 crores from 9 clients. The Noticee repaid the deposits from the client bank A/c. No. 200002567017 (IndusInd Bank) in December 2018 and May 2020. Thus, the Noticee used the client bank account for purposes other than specified.

14.21.2. In reply to the SCN-2, the Noticee submitted as under:

There was no diversion of funds from clients’ account for other purposes. All the payments were done through the client bank account. The Noticee provided bank statements in support of its claim.

14.21.3. The Committee finds as under:

- a. The Noticee claimed that there was no diversion of funds from the clients’ account for other purposes and all the payments were done through the client bank account. Upon verification, it is observed that since financial year 2011-12, the Noticee accepted interest rate bearing deposits amounting to Rs.1.17 crores from 9 clients. The Noticee repaid the deposits from the client bank A/c. No. 200002567017 (IndusInd Bank) in December 2018 and May 2020, thus using the client bank account for purposes other than specified. 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 the constituent's securities or funds. Thus, the Noticee violated the regulatory provisions mentioned above by using the client bank account for a purpose other than specified.

**CONCLUSION**

15. The Noticee is charged with several violations such as misuse of clients' funds and securities, engagement in unwarrantable business, non-settlement of clients' accounts, observation pertaining to discrepancies in maintenance of books of accounts, conflict of interest with statutory auditors, funding of clients' transactions, use of client bank account for purpose other than specified etc.
16. The Noticee is engaged in an unwarrantable business in providing assured returns on the clients' deposits. As per Rule 4 (f) of Chapter IV of the Rules of the Exchange, a Trading Member shall be deemed guilty of unbusinesslike conduct if it *inter alia* engages in reckless or unwarrantable or unbusinesslike dealings in the market or effects purchases or sales for its constituent's account or for any account in which it is directly or indirectly interested which purchases or sales are excessive in view of its constituent's or his own means and financial resources or in view of the market for such security.
17. The Noticee revised the general trial balance thrice as of April 21, 2021, on account of carrying forward errors, without providing an explanation and ledgers of the accounts sought explicitly by the Exchange. By not maintaining proper books of accounts, the Noticee suppressed the actual shortfall of clients' funds. As per Rule 17 of Chapter III of the Rules of the Exchange, *inter alia*, the Relevant Authority may expel a Trading Member, if he has (a) made any willful misrepresentation; (b) suppressed any material information required of him as to his character and antecedents; or (c) has directly or indirectly given false particulars or information or made a false declaration.
18. There is a continuing misuse of clients' funds of Rs.5.73 crores as of January 24, 2020, Rs.2.04 crores as of November 26, 2020, Rs.1.73 crores as of February 19, 2021, and Rs.87.15 lakhs as of April 30, 2021. The Committee granted several opportunities to the Noticee to recoup the shortfall of clients' funds. However, the Noticee failed to recoup the shortfall of clients' funds. Such non-compliance constitutes misconduct within the meaning of Rules 3 (e) of Chapter IV of Exchange Rules and, therefore, liable for disciplinary action under Rules 1 and 2 of Chapter IV of Exchange Rules.

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 authorized 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:*
- (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.*
- (e) *Failure to comply with Resolutions: If it contravenes or refuses or fails to comply with or abide by any resolution, order, notice, direction, decision or ruling of the relevant authority or of any Committee or officer of the Exchange or other person authorized in that behalf under the Bye Laws, Rules and Regulations of the Exchange.*

19. The Committee recalls its direction to the Noticee to submit all relevant supporting documents within 15 days from the date of communication of the direction to prove that the dues (funds and securities) of all the clients are settled, failing which disciplinary action, including expulsion and declaration of default will be initiated. It

is evident that the Noticee does not have any wherewithal to recoup the shortfall of clients' funds and securities and settle the clients' accounts. The Committee records that the Noticee *suo moto* stated that the amounts will be paid to its clients as and when it receives the deposits from Clearing Member and the Exchange upon surrender of its membership as it does not have fund flow. The Committee opines that any Trading Member with such unsatisfactory financial condition cannot be permitted to do business to safeguard the interest of investors.

20. 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 expel the Noticee from the trading membership of the Exchange.

### **DECISION**

21. Considering the facts and circumstances of the case, and the multiple violations and defaults as described above, the Committee decided to expel M/s. Single Window Securities Private Limited from the membership of the Exchange under Rules 1 and 2 of Chapter IV of NSEIL Rules with immediate effect.

Sd/-  
Mona Bhide  
(Chairperson)

Sd/-  
K Narsimha Murthy  
(Committee Member)

Sd/-  
Ranganayakulu Jagarlamundi  
(Committee Member)

Sd/-  
Ashishkumar Chauhan  
(Committee Member)

Date: February 23, 2023