Before the
Member and Core Settlement Guarantee Fund Committee
("MCSGFC/Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051
held on June 15, 2021

In the matter of the Trading Member M/s. Stampede Capital Limited

CORAM:
Ms. Mona Bhide - Chairperson
Ms. Anuradha Rao - Committee Member
Mr. K Narasimha Murthy - Committee Member
Mr. Ranganayakulu Jagarlamudi - Committee Member
Mr. Vikram Limaye - Committee Member

ALSO PRESENT:
Ms. Priya Subbaraman - Chief Regulatory Officer
Dr. Dinesh Kumar Soni - Senior Vice President – Regulatory
Mr. Suresh Nair - Vice President – Enforcement

1. M/s. Stampede Capital Limited ("Noticee") is registered with the National Stock Exchange of India Limited ("Exchange") as a Trading Member and enabled for trading in the Capital Market ("CM") Segment since May 1996, Futures & Option ("F&O") Segment since September 2002, and Currency Derivatives ("CD") Segment since March 2012.

2. The Exchange issued three show-cause notices dated December 07, 2020 ("First SCN"), December 15, 2020 ("Second SCN"), and May 14, 2021 ("Third SCN") to the Noticee for the following observations/violations:

First SCN

a. Change in the shareholding on 64 occasions since March 2015 without obtaining prior approval of the Exchange.
b. Change in directors on 41 occasions since February 2012 without obtaining prior approval of the Exchange.

Second SCN

a. Misuse of clients' fund and securities
   i. Funds of credit balance clients used for settlement obligation of debit balance clients or own purpose to the tune of Rs.0.87 crores, Rs.1.42 crores and
Rs.3.45 crores as of October 09, 2020, October 16, 2020, and October 30, 2020, respectively.

ii. Clients’ funds and securities used for meeting proprietary margin obligations to the tune of Rs.1.43 lakhs and Rs.1.34 lakhs as of October 09, 2020, and October 16, 2020, respectively.

iii. Funds of credit balance clients used for margin obligations of debit balance clients and proprietary trading to the tune of Rs.29.6 lakhs, Rs.44.79 lakhs and Rs.38.12 lakhs as of October 09, 2020, October 16, 2020, and October 30, 2020, respectively.

b. Non-reconciliation of securities recorded in the back-office with the securities available in the beneficiary account.

c. Incorrect data submitted towards the weekly monitoring of clients’ funds.

d. Non-compliance with the directions of the erstwhile Internal Committee for Minor Actions ("ICMA").

Third SCN

a. Change in promoters/Undertaking change in control without obtaining prior approval of the Exchange.

b. Tampering of records.

c. Fixed/Monthly pay-out to the clients in 79 instances.

d. Excess pay-out to the clients despite insufficient funds in the clients’ ledger.

e. Shortfall in the net worth (net worth was negative Rs.7.44 crores as of February 28, 2021).

f. Engagement as a principal or employee in a business other than securities involving personal financial liability by advancing Rs.6.5 crores as of December 31, 2020.

g. Observation relating to the settlement of clients’ funds and securities:
   i. Non-issuance of the statement of funds
   ii. Non-settlement of the clients’ funds and securities

h. Non-reconciliation of securities recorded in the back-office with the securities available in the beneficiary account.

i. Non-reporting of all bank accounts to the Exchange.

j. Incorrect data uploaded in the weekly holding statement as of February 19, 2021-
   i. Securities reported in the weekly holding statement but not recorded in the register of securities in the case of 32 out of 62 scrips (61 out of 115 clients) amounting to Rs.2.03 crores and securities recorded in the register of securities but not reported in the weekly holding statement in the case of 52 out of 62 scrips (112 out of 115 clients) amounting to Rs.7.98 crores
   ii. Securities available in the beneficiary accounts but not reported in the weekly holding statement in the case of 56 out of 64 scrips amounting to Rs.8.69 crores

k. False reporting of margin collected from clients involving an amount of Rs.32,13,871/-.

l. Discrepancies in the books of accounts maintained by the Noticee.
m. Failure to testify or give necessary information.

The Noticee, vide emails dated December 31, 2020, replied to the First SCN and Second SCN and vide email dated May 27, 2021, replied to the Third SCN.

3. MCGSFC Meeting References

3.1 MCGSFC meeting held on February 19, 2021

i. The matter was placed before the Committee in its meeting held on February 19, 2021. The Exchange, vide email dated February 13, 2021, granted the Noticee an opportunity of personal hearing before the Committee. On behalf of the Noticee, Mr. Jonna Venkata Tirupati Rao, Managing Director and Mr. Srinivas Maya, Designated Director, attended the personal hearing.

ii. The Committee noted that the Noticee had reported a shortfall of clients' funds involving an amount of Rs.4.41 crores in its submission towards weekly monitoring of clients' funds for the week ended January 29, 2021, under the Enhanced Supervision of Stockbrokers. Considering that the Exchange is examining the Noticee’s submissions, the Committee, without going into the merits, directed that the matter be placed in the subsequent meeting for further consideration.

iii. Developments post MCGSFC Meeting dated February 19, 2021

a. Given the shortfall of clients' funds involving Rs.4.41 crores in the submission towards weekly monitoring of clients' funds for the week ended January 29, 2021, the Exchange initiated a limited purpose inspection of the Noticee’s books of accounts and records on February 22, 2021. The following are preliminary observations of the Exchange:

- Fixed monthly payments to 52 clients.
- Net worth to the tune of (-ve) Rs.3.25 crores, (-ve) Rs.5.13 crores and (-ve) Rs.7.14 crores as of September 30, 2020, December 31, 2020, and February 08, 2021, respectively.
- Violation of the provisions of Rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957 ("SCRR").
- Non-settlement of 16 inactive clients to the tune of Rs.20 lakhs.
- Excess pay-outs to the tune of Rs.4.9 crores to 3 clients despite the debit balance in the clients' ledger.
- Transactions recorded to the tune of Rs.4.06 crores without the actual receipt of the amount from the client.
Based on the preliminary observations mentioned above, the Exchange initiated a forensic audit of the books and records of the Noticee.

b. The Exchange had received a communication from Indian Commodities Exchange Limited ("ICEX") regarding the withdrawal of the trading rights of the Noticee, in view of the shortfall in net worth, with effect from February 23, 2021. Hence, the Exchange disabled the trading terminals of the Noticee with effect from March 01, 2021, under the joint uniform action prescribed under SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2018/153 dated December 17, 2018, on Early Warning Mechanism.

3.2 MCSGFC meeting held on March 03, 2021

i. The matter was placed before the Committee in its meeting held on March 03, 2021. The Committee took note of the developments that transpired post February 19, 2021. The Committee further noted that the Noticee vide email dated December 31, 2020, provided the current details of the directors as of December 31, 2020, and shareholding pattern and dominant group as of December 25, 2020, wherein Mr. Jonna Venkata Tirupati Rao and M/s. Gayi Adi Management and Trends Private Limited ("Gayi Adi Management") were appointed as New Promoters of the Noticee, without the prior approval of the Exchange and SEBI.

ii. The Committee also noted as under:

   a. The Noticee reported a net worth to the tune of (-ve) Rs.35.39 lakh as of September 30, 2020.
   b. The Exchange initiated a forensic audit of the Noticee’s books and records based on the preliminary observations of the limited purpose inspection. The forensic audit report is awaited.
   c. As the Noticee effected change in control of management without the prior approval of the Exchange and SEBI, the Committee passed the following interim directions in terms of Exchange Circular No. NSE/COMP/39726 dated December 20, 2018:

      1. The trading terminals of the Noticee are currently disabled. The disablement of the trading terminals in all segments shall continue until further directions.
      2. The Noticee shall extend all necessary co-operation to the ongoing forensic audit.
      3. The Noticee may file its objections in writing and seek a personal hearing if desired to be heard by the Committee.
d. The Exchange, vide email dated March 09, 2021, forwarded the interim order dated March 08, 2021, to the Noticee.

iii. Developments post MCGFC Meeting dated March 03, 2021

The Noticee filed its objections with the Exchange and preferred an appeal before the Hon’ble Securities Appellate Tribunal ("SAT") against the interim order dated March 08, 2021, whereby the Committee directed continuation of the disablement of the trading terminals of the Noticee. The Hon’ble SAT, vide order dated March 19, 2021, stayed the said interim order. In compliance with the order of the Hon’ble SAT, the trading terminals of the Noticee were re-enabled with effect from March 19, 2021.

3.3 MCGFC meeting held on March 19, 2021

i. The matter was placed before the Committee in its meeting held on March 19, 2021. The Exchange, vide email dated March 17, 2021, granted the Noticee an opportunity of personal hearing before the Committee. On behalf of the Noticee, Mr. Jonna Venkata Tirupati Rao, Managing Director and Mr. Jagannath Prasad Renduchintala, Chief Financial Officer, attended the personal hearing. The Committee noted the developments that transpired post-March 03, 2021.

ii. After considering the Noticee's oral and written submissions and stay of the interim direction by the Hon’ble SAT, the Committee directed the Exchange to issue a comprehensive show-cause notice post-completion of the forensic audit. The Committee further directed the Exchange to afford an opportunity to the Noticee to respond to the charges, if any, and to place the matter in the subsequent meeting for appropriate decision in the matter.

iii. Upon conclusion of the forensic audit and receipt of the forensic audit report, the Exchange issued the Third SCN to the Noticee for the violations observed by the Exchange and the Forensic Auditor.

3.4 MCGFC meeting held on May 31, 2021

i. The matter was placed before the Committee in its meeting held on May 31, 2021. The Exchange, vide email dated May 24, 2021, granted the Noticee an opportunity of personal hearing before the Committee. On behalf of the Noticee, Mr. Jonna Venkata Tirupati Rao, Managing Director, Mr. Srinivas Maya, Designated Director and Mr. Jagannath Prasad Renduchintala, Chief Financial Officer, attended the personal hearing, and inter alia made the following oral submissions:
a. The Noticee is neither running fixed monthly return/assured return schemes nor entered into an agreement with the clients for such schemes.
b. The presentation and documents mentioned in the forensic audit report were incomplete and in the draft stage and not shared with the clients.
c. The pay-outs to the clients were based on the clients’ requests. The Noticee submitted the clients’ request letters to the Exchange.
d. The Noticee entered into an agreement with the clients for Algo trading. The clients have requested to provide regular pay-outs monthly, irrespective of profit or loss, as per the clients’ needs, from the clients' funds. The Noticee undertook to submit a copy of the agreement executed with the clients for Algo trading.
e. The Noticee did not provide a monthly dividend scheme. Regarding the email received by the client for the scheme, the client had misinterpreted the scheme; hence, the Noticee clarified the same to the client.
f. The files deleted from the laptop of Mr. Srinivas Maya were personal.
g. The Noticee requested the Committee to provide time to the new management to regularise the non-compliances.

ii. After considering the Noticee’s oral and written submissions, the Committee passed the following interim directions:

a. To recoup the shortfall of net worth in entirety within 7 days from the date of the order and submit evidence to the satisfaction of the Exchange
b. To provide documentary evidence to prove that the Noticee is not providing fixed monthly returns/assured returns to the clients within 7 days from the date of the order
c. To provide documentary evidence for the settlement of clients’ accounts as per the clients’ preference for April 01, 2020, to March 31, 2021, within 7 days from the date of the order

iii. The Exchange, vide email dated June 01, 2021, communicated the interim directions mentioned above to the Noticee. The Noticee, vide email dated June 07, 2021, replied to the interim directions.

3.5 MCGFC meeting held on June 15, 2021

The matter was placed before the Committee along with the Noticee’s reply dated June 07, 2021, to the Committee’s directions and the Noticee’s reply to the three show-cause notices. The Committee noted that the Noticee reported a shortfall of clients’ funds to the tune of Rs.0.31 crores and Rs.0.53 crores on May 28, 2021, and June 04, 2021, respectively, in its submissions towards the weekly monitoring of clients’ funds under the Enhanced Supervision of Stock
Brokers. The Committee noted that enough opportunities have been provided to the Noticee and decided to proceed further.

4. At the outset, it is appropriate to produce below the relevant regulatory provisions, including circulars alleged to have been violated by the Noticee:

4.1 Rule 8(3)(f) of the Securities Contracts (Regulation) Rules, 1957

8. The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:
   (3) No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if -
   (f) he engages either as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability.

4.2 Rule 33 under Chapter III of NSEIL Rules

Continued Admittance

(33) The relevant authority shall from time to time prescribe conditions and requirements for continued admittance to trading membership which may, inter alia, include maintenance of minimum net worth and capital adequacy, renewal of certification, if any, etc. The trading membership of any person who fails to meet these requirements shall be liable to be terminated.

4.3 Rule (5)(b) of Chapter III of NSEIL Rules

(5) No person shall be admitted as a trading member of the Exchange if such proposed member:
   (b) is an individual who is engaged as a principal or employer in any business other than that of securities except as a broker or agent not involving any personal financial liability unless he undertakes on admission to sever his connection with such business.

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

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

4.5 Regulation 3.10 of NSEIL Regulations (F&O Segment)

3.10 Margin from the constituents

(a) The Trading Members must demand from its constituents the Margin Deposit which the member has to provide under these Trading Regulations in respect of the business done by the Members for such constituents.

4.6 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 constituent's securities or funds.

4.7 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.

4.8 Regulation 7.3 of NSEIL Regulations (CM and F&O Segments)

7.3 Obligations of a Trading Member on inspection

7.3.1 It shall be the duty of every director, officer and employee of the Trading Member, who is being inspected, to produce to the inspecting authority such books, accounts and other documents in
his custody or control or arrange to produce where such books, accounts and other documents when they are in any other person's custody or control and furnish him such statements and information within such time as the said inspection authority may require.

4.9 Byelaw 2(h) of Chapter V of NSEIL Byelaws

h. Trading members shall extend full co-operation and furnish such information and explanation as may be required for the purpose of any inspection or audit authorised by the relevant authority or other authorised official of the Exchange into or in regard to any trades, dealings, their settlement, accounting and/or other related matters.

4.10 Clause A (5) of Schedule II of SEBI (Stockbroker) Regulations, 1992

A. General

(5) Compliance with statutory requirements: A stockbroker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.

4.11 Regulations 9 (c) & (g) of Chapter II of SEBI (Stock Broker) Regulations, 1992

Conditions of registration

9. Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely,

(c) where the stock broker proposes change in control, he shall obtain prior approval of the Board for continuing to act as such after the change

(g) he shall at all times maintain the minimum net worth as specified in Schedule VI


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

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

The records should be periodically reconciled with the actual collateral deposited with the broker.
4.14 Exchange Circular No. NSE/INSP/13606 dated December 3, 2009

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

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. 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.

4.15 Exchange Circular No. NSE/MEM/13964 dated January 22, 2010

2. In terms of clause 4 of SEBI Circular No. MIRSD/MSS/Cir-30/13289/03 dated July 9, 2003, wherein members are required to obtain ‘fee clearance’ from SEBI through the respective stock exchanges for the following purposes:
   (a) Change in shareholding pattern without change in control,
   (b) Issue and redemption of preference shares, issue of bonus shares, and
   (c) Change in directors other than designated / whole time directors

4.16 Exchange Circular No. NSE/MEM/18010 dated June 08, 2011

The Exchange would grant prior approval to members and sub brokers for change in status or constitution which would include the following:
(a) in case of a body corporate —
   (i) amalgamation, demerger, consolidation or any other kind of corporate restructuring falling within the scope of section 391 of the Companies Act, 1956 (1 of 1956) or the corresponding provision of any other law for the time being in force;
   (ii) change in its managing director, whole-time director or director appointed in compliance with clause (v) of sub-rule (4A) of rule 8 of the Securities Contracts (Regulation) Rules, 1957; and
   (iii) any change in control over the body corporate;


In case of change in control of the above intermediaries except for Sub-brokers, prior approval of SEBI is required.
4.18 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.

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

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

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

<table>
<thead>
<tr>
<th>Name and address of Bank</th>
<th>Name of the Branch</th>
<th>Account Number</th>
<th>IFSC Code</th>
<th>Name of Account</th>
<th>Purpose of Account (Own/Client/Settlement)</th>
<th>Date of Opening</th>
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3.2 Stock brokers shall submit the following data as on 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 stock broker 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 stock broker with the bank to obtain the BG, shall be considered as part of B

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

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

E - Aggregate value of proprietary non-cash collaterals i.e. securities which have been deposited with the clearing corporations and/or clearing Member (across Stock Exchanges)

F - Aggregate value of Non-funded part of the BG across Stock Exchanges

P - Aggregate value of Proprietary Margin Obligation across Stock Exchanges

MC - Aggregate value of Margin utilized for positions of Credit Balance Clients across Stock Exchanges

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

3.3.1 Funds of credit balance clients used for settlement obligation of debit clients or for own purpose:

Principle:
The total available funds i.e. cash and cash equivalents with the stockbroker and with the clearing corporation/clearing member (A + B) should always be equal to or greater than clients’ funds as per ledger balance (C)

3.3.2 Funds of clients used for Margin obligation of proprietary trading: Stock Exchanges shall thereafter, verify whether the proprietary margin obligations (across Stock Exchanges) is less than the own funds and securities lying with the Stock Exchanges as collateral deposit, as follows:

Principle:
The sum of proprietary funds and securities i.e. (G + E + F) lying with the clearing corporation/clearing member should be greater than or equal to Proprietary margin obligations (P)

3.3.3 Funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading:

Stock Exchanges shall thereafter, verify whether the clients funds lying with the clearing corporation/clearing member are utilised towards margin obligations of debit balance clients and proprietary margin obligations.
Principle:
The clients' funds lying with the clearing corporation/clearing member should be less than or equal to sum of credit clients' margin obligations (MC) and free collateral deposits available with the clearing corporation/clearing member (MF)

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

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

All brokers shall execute trades of clients only after keeping evidence of the client placing such order, it could be, inter alia, in the form of

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

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

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

4.21 Exchange Circular No. NSE/COMP/39726 dated December 20, 2018

IV. Change in Shareholding:

A. Prior Approval of Exchange for change in shareholding:
Once a corporate trading member nominates/determines a group of shareholders as its DPG, it is to be ensured that the DPG always maintains among themselves the minimum required shareholding as specified above at all points of time. Members are required to seek prior approval from the Exchange for any change in the shareholding/sharing pattern of the trading member corporate/firm or the corporate shareholder (s)/identified as dominant promoter (s).

V. Disciplinary Action:
Failure to maintain the required level of shareholding will be treated as a breach of the continuing membership norms, which would tantamount to a reconstitution of the trading member corporate as the existing DPG would no longer hold controlling interest in the trading member corporate or alternatively a new group would have emerged with controlling stake. In such case NSE may initiate appropriate disciplinary action including withdrawal of the trading facility of such trading members.

4.22 Exchange Circular No. NSE/INSP/39855 dated January 03, 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 subsequent week through the Inspection module in the Member portal. The procedure for submission of the data was given in Annexure-1 of this circular.

4.23 Exchange Circular No. NSE/INSP/41359 dated June 20, 2019

4.1 The securities received in pay-out against which payment has been made by clients, shall be transferred to the demat account of the respective clients within one working day of the pay-out. Such securities shall be transferred directly from the pool account of the TM/CM to the demat account of the respective client.

4.24 Exchange Circular No. NSE/COMP/42428 dated October 17, 2019

Net worth Requirement & Method of Computation

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

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

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

The stockbroker shall have a net worth and shall deposit with the stock exchange a sum as may be specified by the Board/Stock Exchange for the relevant segment from time to time.

Explanation.- For the purposes of this Schedule, ‘net worth’ shall mean paid up capital, free reserves and other securities approved by the Board from time
to time but shall not include fixed assets, pledged securities, value of member’s card, non-allowable securities (unlisted securities), bad deliveries, doubtful debts and advances (debts or advances overdue for more than three months or debts or advances given to the associate persons of the member), prepaid expenses, losses, intangible assets and 30% value of marketable securities.


What margins are required to be collected by Trading Members from clients in Capital & Derivative Segments?

A. Capital Market Segment
   *In capital segment, Trading Members (TM) are required to mandatorily collect VaR margins and Extreme loss Margin (ELM) from their clients on an upfront basis. Other margins such as Mark-to-market margin (MTM), delivery margin, special/additional Margin or such other margins as may be prescribed from time to time, shall be collected within ‘T+2’ working days from their clients. It must be ensured that VaR margins and ELM are collected in advance of trade and other margins are collected/paid as soon as margin calls are made by the clearing corporations.*

B. F&O segment
   *In the F&O segment, it is mandatory for Trading Members to collect SPAN margin & Extreme loss margin from respective clients on a upfront basis. It must be ensured that all upfront margins are collected in advance of trade. Delivery Margin and margin on consolidated crystallized obligation shall be collected from clients by T+1 day.*

C. Currency Derivative segment
   *In case of Currency Derivatives segment also, it is mandatory for Trading Members to collect initial margin and extreme loss margins from their client on an upfront basis. It must be ensured that all upfront margins are collected in advance of trade. Margin on consolidated crystallized obligation shall be collected from clients by T+1 day. However, in case of currency future contracts, final settlement amount shall be collected by T+2 day.*

5. **Consideration of alleged observations/violations referred to in the First SCN, the reply of the Noticee, and the findings of the Committee:**

5.1 **Change of directors and shareholding**
   
i. The Noticee has undertaken change in directors on 41 occasions since
February 2012 and change in the shareholding on 64 occasions since March 2015 without obtaining the prior approval of the Exchange.

ii. In reply to the First SCN, the Noticee has submitted as under:

a. During its internal discussion for change of promoter, it came to its knowledge that several changes in directors have taken place without obtaining the prior approval of the Exchange. To regularize this non-compliance, the Noticee coordinated with the Exchange and submitted most of the documents it possessed. However, the Noticee was unable to find some of the supporting documents since the data is old.

b. After completing the takeover process in November 2020, all the old directors have submitted their resignations. The Noticee has requested the directors for some more time, but the old directors have denied the Noticee’s request. Hence, the Noticee has appointed the new directors without obtaining the prior approval of the Exchange.

c. For the change in shareholding, the promoters stock selling details have been intimated to the Exchange through the Listing Department. The Noticee is unable to provide the details in the prescribed format to the Exchange as it does not have the requisite data.

d. The Noticee has requested the Exchange to consider its appeal for regularizing the non-compliance and update the details as per the MCA portal.

iii. The Committee finds as under:

a. The Noticee had applied on September 20, 2019, for the approval of the Exchange for change in the shareholding and directors. Since the Noticee had submitted incomplete documents, the Exchange, vide emails dated November 16, 2019, December 17, 2019, April 29, 2020, September 02, 2020, and October 15, 2020, advised the Noticee to submit the prescribed documents to complete the application and proceed further.

b. In response to the Exchange’s email dated October 15, 2020, the Noticee had submitted the remaining documents/information on November 04, 2020.

c. On examining these documents, the Exchange observed that the Noticee had changed the directors on 41 occasions since February 2012 and changed the shareholding on 64 occasions since March 2015. The Noticee had effected the changes in directors and shareholding without obtaining the prior approval of the Exchange.

d. The change in management cannot be a ground for failure to comply with the regulatory requirement of obtaining the prior approval of the Exchange.
e. The filing of the information with the Listing Department of the Exchange is an obligation of the Noticee as a listed company. Hence, the Noticee’s contention that it had intimated the information relating to the stock sale by the promoters to the Listing Department of the Exchange cannot be considered as compliance for effecting the change in shareholding specified for Trading Members as is required by the various SEBI/Exchange regulations and circulars.

f. The Noticee is unable to submit any justifiable reasons for failure to obtain the prior approval of the Exchange for effecting changes in the directors and shareholding on multiple occasions. Further, the Noticee failed to submit the prescribed documents to complete the application despite Exchange’s emails/letters dated November 16, 2019, December 17, 2019, April 29, 2020, September 02, 2020, and October 15, 2020.

g. Thus, the Noticee has violated the provisions of Exchange Circular No. NSE/MEM/13964 dated January 22, 2010, and Exchange Circular No. NSE/MEM/18010 dated June 08, 2011.

6. Consideration of alleged observations/violations referred to in the Second SCN dated December 15, 2020, the reply of the Noticee, and the findings of the Committee

6.1 Misuse of client funds

i. The Noticee misused the clients’ funds as under:

a. Funds of credit balance clients were used for settlement obligation of debit clients or own purpose to the tune of Rs.0.87 crores, Rs.1.42 crores and Rs.3.45 crores on October 09, 2020, October 16, 2020, and October 30, 2020, respectively.

b. Clients’ funds and securities were used for meeting proprietary margin obligations to the tune of Rs.1.43 lakhs and Rs.1.34 lakhs on October 09, 2020, and October 16, 2020, respectively.

c. Funds of credit balance clients were used for meeting the margin obligations of debit balance clients and proprietary trading to the tune of Rs.29.6 lakhs, Rs.44.79 lakhs and Rs.38.12 lakhs on October 09, 2020, October 16, 2020, and October 30, 2020, respectively.

ii. In reply to the Second SCN, the Noticee has submitted as under:

a. For the observation on the transfer of funds from the client bank account to own bank account and subsequently to Spacenet Enterprises (India) Ltd. ("Spacenet") - The Noticee had transferred the funds based on the clients’ request for investing in the Compulsorily Convertible Preference Shares ("CCPS") of Spacenet. Post-inspection, the Noticee has cancelled the said proposal and recouped the clients’ funds from its own sources.
b. For the observation on the clients’ funds and securities used for meeting the proprietary margin obligation – Post-inspection, the Noticee has stopped proprietary trading.

c. For the observation on the funds of credit balance clients used for meeting the margin obligations of debit balance clients and proprietary trading - The Noticee has not replied to the said observation.

iii. The Committee finds as under:

a. Qua the observation on the funds of credit balance clients used for settlement obligation of debit clients or own purpose, the Noticee had accepted the inspection observation and stated that the shortfall of clients’ funds was due to funds transferred to Spacenet towards subscription to CCPS based on the clients’ request. Post-inspection, the Noticee claimed to have cancelled the said proposal and recouped the clients’ funds from its own sources.

b. Qua the observations on the clients’ funds and securities used for meeting proprietary margin obligations and funds of credit balance clients used for margin obligations of debit balance clients and proprietary trading, the Noticee has not provided any elaborate reply apart from claiming that it has stopped proprietary trading.

c. The Committee noted that the Noticee reported a shortfall of clients’ funds in its weekly submissions towards monitoring of clients’ funds under the Enhanced Supervision of Stockbrokers to the tune of Rs.2.02 crores, Rs.4.37 crores, and Rs.4.41 crores on January 15, 2021, January 22, 2021, and January 29, 2021, respectively. The Exchange, vide email dated February 05, 2021, advised the Noticee to provide the details to verify the availability of clients’ funds as on January 29, 2021. The Noticee, vide email dated February 09, 2021, submitted that the shortfall of clients’ funds in January 2021 was due to the use of funds for non-individual clients who were unable to meet their funds pay-in obligation. These clients had provided post-dated cheques against the obligation. 50% of the debit has been cleared, and by February 19, 2021, the remaining debit will be cleared. On examining the details regarding the shortfall of clients’ funds as on January 29, 2021, the Committee noted that the shortfall of clients’ funds was Rs.5.16 crores instead of Rs.4.41 crores. Further, the Noticee accepted the inspection observation and stated that the shortfall of clients’ funds was due to the use of funds for non-individual clients who were unable to meet their funds pay-in obligation.

d. Though the Noticee claimed that it had recouped the shortfall of clients’ funds by infusing funds from its own sources in December 2020, it again misused the funds of credit balance clients in January 2021, resulting in a shortfall of clients’ funds.
e. The Exchange conducted a limited purpose inspection of the Noticee’s books and records in February 2021. During the inspection, the Exchange observed that the Noticee had recouped the shortfall of clients’ funds on February 16, 2021.

f. Despite the Noticee being aware of the misuse of clients’ funds on October 09, 2020, October 16, 2020, and October 30, 2020, the Noticee did not take any steps/efforts to monitor compliance and ensure non-recurrence. This is evident from the consequent reporting of the shortfall of clients’ funds of Rs.2.02 crores, Rs.4.37 crores, and Rs.4.41 crores on January 15, 2021, January 22, 2021, and January 29, 2021, respectively.

g. The Committee finds that the Noticee has accepted that it had misused the clients’ funds leading to a shortfall. The Noticee has displayed a casual approach in handling the clients’ funds. The Noticee has failed to demonstrate on multiple occasions that the clients’ funds were adequately available.

h. Thus, the Noticee has violated the provisions of Regulation 4.5.3 (e) of the NSEIL Regulations (CM and F&O Segments), Exchange Circular No. NSE/INSP/29096 dated March 11, 2015, and Exchange Circular No. NSE/INSP/2016/33276 dated September 27, 2016.

6.2 Non-reconciliation of securities recorded in the back-office with the securities available in the beneficiary account

i. The Noticee did not reconcile its back-office holdings with stocks lying in the client demat accounts as per the details given below:

a. **July 25, 2020**
   1. Securities reported in the weekly holding statement but not available in the demat accounts - 2 scrips amounting to Rs.0.11 crores.
   2. Securities available in the demat accounts but not reported in the weekly holding statement - 10 scrips amounting to Rs.0.27 crores.

b. **October 31, 2020**
   1. Securities reported in the weekly holding statement but not available in the demat accounts - 1 scrip amounting to Rs.0.17 crores
   2. Securities available in the demat accounts but not reported in the weekly holding statement - 15 scrips amounting to Rs.5.26 crores.

ii. In reply to the Second SCN, the Noticee has submitted that in case of excess securities reported in the weekly holding statement as of July 25, 2020, and October 31, 2020, the said securities were pledged for margin with the Clearing Member. The Noticee has submitted the weekly holding statements to substantiate its claim.
iii. The Committee finds as under:

a. For excess securities reported in the weekly holding statement, post-verifying the report of the Clearing Member provided by the Noticee, the Committee finds that the securities were available with the Clearing Member, and the Noticee has not reported excess securities in the weekly holding statement.

b. For securities not reported in the weekly holding statement, the Noticee has provided the weekly holding statement without providing any explanation for the same.

c. The Noticee has not carried out periodic reconciliation of securities recorded in the back-office with the securities available in the demat accounts resulting in incorrect reporting of details in the weekly holding statement. It is pertinent to note that these details are essential for ascertaining the settlement of client accounts and determining the availability of sufficient margin while trading on the Exchange.

d. Thus, the Noticee has acted in violation of the provisions of Exchange Circular No. NSE/INS/29096 dated March 11, 2015.

6.3 Incorrect data submitted towards the weekly monitoring of clients’ funds

i. On examining the data submitted towards the weekly monitoring of clients’ funds under the Enhanced Supervision of Stock Brokers, the Exchange observed that the Noticee reported incorrect data in six areas on October 09, 2020, October 16, 2020, and October 30, 2020.

ii. In reply to the Second SCN, the Noticee has submitted as under:

a. There was a typographical error while submitting the data towards the weekly monitoring of clients’ funds for free/unblocked collateral deposited with Clearing Corporation. Instead of entering the actual value Rs.1,39,59,035/-, the Noticee had entered Rs.13,95,90,035.79. The Noticee has submitted the actual calculation as per its back-office to substantiate its claim.

b. It has stopped proprietary trading in all segments.

iii. The Committee finds as under:

a. The Noticee’s contention that the incorrect submission for free/unblocked collateral deposited with Clearing Corporation was due to a typographical error can be ex facie accepted since it is apparent from the figures entered. The Committee, therefore, considers it to be a typographical error as claimed by the Noticee. However, the Noticee did not submit any specific response to the incorrect submissions in the
other five areas.

b. The Exchange, vide email dated February 05, 2021, requested the Noticee to provide a specific response for the differences in the other five areas. The Noticee, vide reply email dated February 09, 2021, claimed that it is submitting the correct data to the Exchange without explaining the reasons for the differences.

c. The obligation on the Trading Members to submit the prescribed information in their weekly and monthly submissions is critical from the point of view of regulatory oversight of the client's assets. The non-submission or incorrect submission is not acceptable and raise a doubt on the credibility and genuineness of the data submitted by the Trading Member. Any wrong submission may be either due to a willful misrepresentation or unintentional act on the part of the Noticee, and the onus is on the Trading Member to disprove or prove the same as the case may be.

d. The Committee also noted that there was a misuse and shortfall of clients' funds to the tune of Rs.0.87 crores, Rs.1.42 crores and Rs.3.45 crores on October 09, 2020, October 16, 2020, and October 30, 2020, respectively.

e. Thus, the Noticee has acted in violation of the provisions of the Exchange Circular No. NSE/INSP/2016/33276 dated September 27, 2016.

6.4 Non-compliance of erstwhile ICMA directions

i. The Noticee did not adhere to the erstwhile ICMA directions communicated vide action letter dated August 06, 2019, for the inspection period November 01, 2017, to October 31, 2018. The details are as follows:

*Non-maintenance of appropriate evidence for placing orders* – The Noticee was directed to put in place an appropriate system for recording the order instructions and maintain the same as part of its records and confirm their compliance to the Exchange within 1 month from the date of the communication.

The Noticee has not communicated the compliance of the direction mentioned above to the Exchange to date. Moreover, the Exchange observed the same violation during the subsequent regular inspections for the period October 01, 2018, to September 30, 2019, which was communicated to the Noticee vide letter of observation dated August 20, 2020, issued by the Exchange. The Noticee has provided its reply vide email dated September 02, 2020, and the matter was placed before the Relevant Authority of the Exchange on December 10, 2020, wherein it was decided to issue a show-cause notice for non-compliance with the directives of the Exchange.
ii. In reply to the Second SCN, the Noticee has failed to address the observation.

iii. The Committee finds as under:

a. The Noticee has not addressed the observation in its reply to the Second SCN. However, the Noticee, vide email dated February 09, 2021, requested time to revert on the said observation.

b. The Committee finds that the Noticee has not adhered to erstwhile ICMA direction and has not addressed the observation despite show cause notice and a reminder. The Noticee has demonstrated a total disregard to the direction issued by the Exchange by failing to provide a concrete response to a critical and repeat violation.

c. The Noticee failed to maintain appropriate evidence in respect of the order placed by their clients including voice recording where orders are received through telephone. Thus, the Noticee has acted in violation Regulation 3.2.1 of NSEIL Regulations (CM Segment), Regulation 3.4.1 of NSEIL Regulations (F&O Segment), Exchange Circular No. NSE/INSP/35929 dated September 27, 2017.

7. Consideration of alleged observations/violations referred to in the Third SCN, the reply of the Noticee, and the findings of the Committee

7.1 Change in Promoters without obtaining the prior approval of the Exchange and SEBI

i. On examining the Noticee’s application for change in the shareholding and directors vis-à-vis the Noticee’s responses to the Exchange’s queries, the Exchange observed that Mr. Jonna Venkata Tirupati Rao and Gayi Adi Management ("Proposed/New Promoters") were inducted as shareholders and designated as promoters of the Noticee without the Exchange’s approval.

It was evident from the current shareholding pattern that Ms Meenavalli Usha Rani held 50.85%, and Mr. Meenavalli Venkat Srinivas held 0.26% of the total shareholding of the Noticee, which was 1,16,48,519 equity shares. As per the Exchange’s records, Ms Meenavalli Usha Rani and Mr. Meenavalli Venkat Srinivas ("Present/Old Promoters") constitute the Dominant Promoter Group ("DPG").

It is further evident that the change in the shareholding, post-acquisition, indicates that the Present/Old Promoters do not hold any equity by virtue of their transfer of shares to the Proposed/New Promoters. Out of 51.11% shareholding (combined shareholding of the Present/Old Promoters), the
Present/Old Promoters transferred 18.68% shareholding to the Proposed/New Promoters and sold the balance shareholding to the public.

From the Noticee’s application, it is observed that the Noticee, without obtaining the prior approval from the Exchange and SEBI, proceeded to nominate/appoint the Proposed/New Promoters as the new promoters of the Noticee with immediate effect in the Board meeting held on November 27, 2020. Thus, the present action amounts to a change in control without obtaining the prior approval of the Exchange and SEBI.

ii. In reply to the Third SCN, the Noticee submitted as under:

a. In July 2020, Mr. Jonna Venkata Tirupati Rao and Gayi Adi Management (Acquirers) acquired 17.28% of equity shares and 42.79% of shares with Differential Voting Rights ("DVR") of the Noticee Company. The Noticee completed the formalities for the acquisition of the shares under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 2011 ("Takeover Regulations"). The Acquirers gave an open offer for the acquisition of shares and became the controlling shareholders of the Noticee Company, holding 18.68% of the share capital.

b. The Proposed/New Promoters completed the acquisition of the shares of the Noticee Company in November 2020. After taking over the Noticee Company, they learnt that the erstwhile management committed certain irregularities concerning obtaining the prior approval of the Exchange for change in directors and shareholding. Hence, the Proposed/New Promoters suo moto approached the Exchange and sought regularization of such non-compliance.

c. Instead of considering the bonafide intention of Proposed/New Promoters, the Exchange issued the First SCN informing the Noticee on the violation concerning change in shareholding on 64 occasions since March 2015 and change in directors on 41 occasions since February 2020 without obtaining the prior approval of the Exchange.

d. The Proposed/New Promoters have informed the Exchange regarding non-compliance by the erstwhile management/promoters of the Company. The concerned department of the Exchange, vide email dated March 15, 2021, informed the Noticee of the discrepancies in the Noticee’s application for change in control and sought additional information to proceed further. In reply, the Noticee, vide email dated March 18, 2021, submitted the modified application for seeking post-facto NOC for change in control dated March 10, 2021, with the Exchange.

iii. The Committee finds as under:

a. The Noticee, as a listed entity, had complied with the Takeover Regulations, which does not include any process for seeking approval
for making an open offer. The obligations under the Takeover Regulations are not germane to the issue at hand as the same are applicable to a listed entity. The compliance with the Takeover Regulations does not tantamount to compliance with the membership norms prescribed for a Trading Member. The Noticee’s contention that the Proposed/New Promoters were not aware of the correspondence made by the erstwhile management for change in directors and shareholding without obtaining the prior approval of the Exchange and the necessary information were not available with the Noticee, is incomprehensible. Further, it is a matter of record and evident from the affidavit filed before the Hon’ble SAT in Appeal No. 145 of 2021 that Mr. Jonna Venkata Tirupati Rao had acquired the stake in the Noticee Company since July 2020. It is prudent for any entity seeking a stake in a regulated company to know the norms applicable to a company. It is pertinent to note that on examining the application for change in shareholding and directors, the Exchange observed the alleged non-compliances and sought an explanation. As the Noticee’s response was not satisfactory, the Exchange had issued the First SCN.

b. In terms of Exchange Circular No. NSE/MEMB/18696 dated August 25, 2011, the Noticee, as a Trading Member, is required to obtain prior approval of Exchange (NOC) and SEBI for any change in shareholding resulting in a change in control. The Noticee, being a listed entity, completely ignored its regulatory obligation as a Trading Member. The Noticee is responsible not only to the clients trading through it, but also to the investors who have invested in its equity. It is pertinent to mention here that the public shareholding in the Noticee Company is 81.32 % as of March 31, 2021.

c. As per the board resolution dated November 27, 2020, the Noticee completed the acquisition process in November 2020; however, the Noticee did not seek the prior approval of the Exchange for change in control. Only after issuing the First SCN and emails dated January 18, 2021, and March 10, 2021, the Noticee applied for post facto approval of the Exchange. Therefore, the Noticee’s contention that it had suo moto approached the Exchange for the said irregularity is also not valid.

d. On examining the Noticee’s application for change in shareholding vide email dated September 08, 2020, the Exchange observed that the Noticee changed the shareholding on 64 occasions since March 2015 without obtaining prior approval of the Exchange. The Noticee was directed to submit the details of the change in shareholdings undertaken during the period. Since the Noticee was unable to submit the requisite details, the Exchange was unable to process the application.

e. Though the Noticee was aware that the application for change in shareholding was pending due to non-submission of requisite details, the Noticee proceeded to change the shareholding resulting in a change in control without obtaining the prior approval of the Exchange.
f. The Noticee admitted that upon completing the takeover process in November 2020, new directors were appointed without seeking prior approval of the Exchange as all the existing directors had resigned.
g. The Noticee did not obtain prior approval from the Exchange for the change in shareholding resulting in a change in control. Thus, the Noticee has acted in violation of the provisions of Exchange Circular No. NSE/MEMB/18696 dated August 25, 2011, and Exchange Circular No. NSE/COMP/39726 dated December 20, 2018.

7.2 Tampering of records by the Noticee

i. From the forensic audit report, it was observed that before imaging of the hard disk of the laptop of Mr. Srinivas Maya, the Whole-time Director of the Noticee, Mr. Maya deleted 8,947 files on March 02, 2021, despite being instructed by the Forensic Auditor not to delete any files. Out of the deleted files, 1,808 files were in pdf, 1,030 files were in word, and 506 were in excel. Mr. Maya stated that most of the files deleted were personal or related to his previous company, and no data belonging to the Noticee was deleted. However, the Forensic Auditor recovered certain investment strategies pertaining to the Noticee’s business from the files deleted by Mr. Maya. Out of the deleted files, one excel file contained the calculation of client pay-outs ranging from 0.92% to 1.25% for 12 clients. The Noticee, therefore, indulged in acts that amounted to the destruction of records and evidence.

ii. In reply to the Third SCN, the Noticee submitted as under:

   a. The Noticee denied the allegation. On March 01, 2021, the official of the Exchange, along with one other person, without intimation, communication or authority, visited the office of the Noticee Company and sought the laptop of Mr. Maya for a forensic audit. Though the officials of Exchange/Forensic Auditor did not have any authority, Mr. Maya, handed over the laptop and informed that he has deleted only some personal files. The officials were not carrying any authority or any letter regarding the forensic audit, and the same was provided subsequently on March 04, 2021.

   b. Mr. Maya did not delete any files except personal data files. The forensic audit report is only dealing with the 5-6 deleted files out of more than 8,000 deleted files, which were made for Noticee's internal products developments and were never shared with anyone. Hence, it is submitted that Mr. Maya has not tampered with any records of the Noticee.

iii. The Committee finds as under:

   a. The Noticee’s contention that the inspection and the copying of the data by the Exchange were without any intimation is incorrect. The
Exchange, vide email dated February 22, 2021, intimated the Noticee of the inspection. In the said email, the Exchange informed the Noticee that inspection would include “copying of data from your computer systems.” Accordingly, the Exchange copied the data with the help of the Forensic Auditor. The Noticee did not raise objections at the time of copying the data. The Exchange, thereafter, informed the Forensic Auditor’s appointment and directed the Noticee to co-operate and provide the necessary information to the Forensic Auditor. The Committee finds that the allegation of copying the data without authority was raised only after the Exchange issued the Third SCN, which revealed serious violations based on the deleted information. It is pertinent to note that the data deleted by Mr. Maya included presentations and pdf files containing investment strategies relating to assured returns such as Monthly Payout Strategy, Market Making Strategy and Wealth Products consisting of Carry Trade Model and Market Making Model, which are not permitted. The Noticee has not provided any satisfactory explanation to the charge of deletion of records.

b. By deleting the records, including investment strategies and payout workings, the Noticee has tampered with the evidence, indicating that certain records were destroyed for which no satisfactory explanation has been submitted. Therefore, this act of the Noticee is grave and is guilty of misconduct in terms of provisions of Rule 3 (g) under Chapter IV of NSEIL Rules.

7.3 Fixed/monthly pay-outs made to clients

i. On examining the data collated by the inspection team on February 22, 2021, the Exchange observed that the Noticee made fixed monthly pay-outs to 52 clients. On reviewing the electronically stored information, the Forensic Auditor observed that the Noticee paid fixed amounts in the range of 1% to 2% per month of the invested amount to the clients. The observation of the Forensic Auditor indicates that there were several presentations such as Market Making Strategy/Monthly Pay-out Strategy and Market Making Model/Cash Neutral Strategy offering minimum/expected monthly returns as under:

   1. The Noticee offered returns in the range of 1.5% to 2.5% per month on a minimum investment of Rs.5 lakhs to Rs.10 lakhs.
   2. The Noticee made fixed pay-outs to 79 unique clients at the rate of 1%, 1.25%, 1.5% or 2% per month on the potential initial investment made by the said clients. The total potential initial client investment amounted to Rs.13.65 crores.
3. The pay-outs made to the clients were a percentage of capital. This is evident from the extract of the forensic audit report as under:

During the ESI review, an email was noted from Srinagesh (Manager – Sales support, Corporate) to Shilpi D’Souza (Assistant Manager KYC, Corporate) whereby against the client payout of INR 7,500, a reference was made to term “Capital” having amount of INR 5,00,000.

Further, in the trail mail, it was noted Srinagesh has shared the list of November 2020 client payouts with Vase Christ (Head-Sales, Corporate), whereby in the remarks, it was mentioned “2% of Capital” against 2 clients. The payouts were approved by Vase Christ. Basis ledger review of these 2 clients, it was confirmed that payouts made to clients were 2% of their investments made.

Additionally, an email from Shilpi D’Souza to Srinagesh was noted having attachment “Book4.xlsx” containing potential calculations towards monthly payouts to clients for the month of November 2020. Basis the review, potential amount received from clients were recorded under the head “Capital” in the spreadsheet on which payouts were calculated.

4. The Forensic Auditor observed an email from the client for potential fixed monthly payouts under “Monthly Dividend Plan”. This is evident from the extract of the forensic audit report as under –

During the ESI review, an email was noted dated 5 October 2020 shared by Baleswara Rao (Vice President – Sales Retail Distribution, Vijaywada) with Srinagesh (Manager – Sales support, Corporate), whereby as per the trial mail, Ramesh Rachuri (rachuri1980@gmail.com) [UCC: VJS001 - BUDDA SASIKALA], was referring to “Monthly Dividend Plan” of Stampede whereby client has invested INR 5 Lakhs and Stampede had committed to pay him INR 7,500 every month into his bank account from the date he had invested the money.

Basis ledger review of client [UCC: VJS001], it was confirmed that client had invested INR 5 Lakhs with Stampede on which client was being paid monthly payouts of INR 7,500.

b. Market Making Model/Cash Neutral Strategy

The Noticee was offering assured minimum return of 20% per year under the SLBM agreement on minimum investment of Rs.20 lakhs.

ii. In reply to the Third SCN, the Noticee submitted as under:

The fixed monthly payments are pay-outs made to the clients at their request. The Noticee has inter alia stated that “It is further submitted that at
the time of account opening some clients requested for certain monthly pay out from the Notice irrespective of profit of loss or subjected to funds clear balance and the Noticee is making pay-outs as per the request of such Clients and the pay-outs are making through only from clients funds”. The Noticee has submitted a copy of the pay request letters/email from 55 clients in support thereof. The Noticee contended that none of the clients has mentioned any alleged scheme and informed that there is no agreement by the Noticee for fixed returns.

iii. The Committee finds as under:

a. Apart from refuting the charge of providing fixed returns, the Noticee has not provided a reply for making pay-outs to the clients, which is observed to be as a percentage of return on capital. This is evident from the fixed pay-outs @ 1%, 1.25%, 1.5%, or 2% made to 79 unique clients. The summary of the clients to whom monthly pay-outs were made is as per the table given below:

<table>
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<tr>
<th>Sr. No.</th>
<th>Monthly Payout %</th>
<th>No of clients</th>
<th>Investment range (INR)</th>
<th>Total investment by all clients</th>
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<tbody>
<tr>
<td>1</td>
<td>1.00%</td>
<td>6</td>
<td>15 Lakhs to 3.25 Crores</td>
<td>INR 7.61 Crores</td>
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<tr>
<td>2</td>
<td>1.25%</td>
<td>7</td>
<td>10 Lakhs to 50 Lakhs</td>
<td>INR 1.42 Crores</td>
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<td>1.50%</td>
<td>59</td>
<td>5 Lakhs to 16 Lakhs</td>
<td>INR 4.13 Crores</td>
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<td>2.00%</td>
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<td>5 Lakhs to 15 Lakhs</td>
<td>INR 0.48 Crores</td>
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<tr>
<td>Total</td>
<td></td>
<td>79</td>
<td></td>
<td>INR 13.65 Crores</td>
</tr>
</tbody>
</table>

b. The Noticee made fixed pay-outs to 79 unique clients @ 1%, 1.25%, 1.5% or 2% per month on the potential initial investment made by the said clients. For these 79 clients, total client funds/potential investment towards potential fixed payouts amounted to approximately Rs.13.65 crores. The lowest amount invested by any client was Rs.5 lakhs on which the Noticee made the potential monthly payouts.

c. The pay-outs to the clients were in the form of return on capital. This is evident from the emails dated December 02, 2020, December 03, 2020, and January 05, 2021, exchanged between the employees of the Noticee, which mentioned the term “capital”. During the review of the ESI, the Forensic Auditor had retrieved an email from Mr. Srinagesh (Manager – Sales Support, Corporate) to Ms Shilpi D’Souza (Assistant Manager KYC, Corporate) wherein against the pay-out of Rs.7,500/- made to a client, a reference was made to the term “Capital” of Rs.5 lakhs. Further, in the trail mail, it was noted that Mr. Srinagesh has also shared the list of pay-outs to be made to the clients for November 2020 with Mr. Vase Christ (Head-Sales, Corporate) wherein in the remarks it was mentioned “2% of Capital” against 2 clients. Mr. Vase Christ approved the pay-outs. The Committee notes that based on the ledger
review of these 2 clients, it was confirmed that pay-outs were made to clients @ 2% of the amount invested by them.

d. While the Noticee claimed that the pay-outs were made as per the clients’ request, the Noticee failed to explain the pay-out to 79 unique clients at similar rate of return. It is apparent from the records retrieved by the Exchange and the Forensic Auditor that certain systematic payments were made, which is evident from the ledger extract for sample clients, viz. Umarani Sriramula (Client Code US0005), Budda Sasikala (Client Code VJS001), Vemula Aditya (Client Code HDA001) and Pradeep Madana (Client Code HDP002) reproduced below:

1. **Example 1 - Client Code US0005 - Umarani Sriramula**

1.1 On examining the client’ ledger available on record, it is observed that the client had invested Rs.5 lakhs on October 12, 2020. The Noticee released monthly pay-outs to the client in the first week of the month. The first monthly pay-out of Rs.4,597/- to the client in November 2020 was calculated @ 1.5% on the investment of Rs.5 lakhs for 19 days out of 31 days of October 2020. The next three monthly pay-outs of Rs.7,500/- each to the client was calculated @1.5% on the investment of Rs.5 lakhs for November 2020, December 2020 and January 2021.

1.2 The below is an extract of the “Monthly Payout Strategy” recovered from the files deleted by Mr. Maya. The monthly pay-outs @ 1.5% of investment is in line with the Market Making Strategy / Monthly Payout Strategy, wherein the Noticee was offering returns in the range of 1.5% per month to 2.5% per month on minimum investment of Rs.5 lakhs to Rs.10 lakhs. This proves that fixed monthly pay-outs to the clients were based on the schemes prepared by the Noticee.

1.3 On examining the bank statement of Account No. 00210340004892, HDFC Bank, available on record, it is observed
that the Noticee has made the pay-out of Rs.4,597/- to the client on November 03, 2020. Further, it is observed that the Noticee has released the pay-out of Rs.7,500/- to the client on December 02, 2020.

1.4 The below is an email dated January 05, 2021, from Ms Shilpi D’Souza (Assistant Manager KYC, Corporate) to Mr. Srinagesh (Manager – Sales Support, Corporate), retrieved during the review of ESI. The email enclosed an attachment “Book4.xlsx” containing the potential calculations on monthly pay-outs to 56 clients for November 2020, including Client Code US0005, wherein Rs.5,00,000/- is recorded under the heads "Capital" and "Opening Balance" and Rs.7,500/- is recorded under the head "Payout on OP Bal".

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Dear Sir,

Payout Proceeded.

Please find the attachment.

Regards
Shilpi
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2. Example 2 - Client Code VJS001 - Budda Sasikala

2.1 During the review of ESI, the Forensic Auditor retrieved an email dated October 05, 2020 with a subject “My Self Sasi kala I should be receiving approximately Rs.1,750 (7 Days in Aug) and Rs.7500 (Sep 2020), total Rs.9250/-” from Mr. Baleswara Rao (Vice President – Sales Retail Distribution) to Mr. Srinagesh (Manager –
Sales Support, Corporate) marking a copy to Mr. Vase Christ and Mr. Srinivas Maya.

2.2 The email contained a trail email from Mr. Ramesh Rachuri (rachuri1980@gmail.com) dated October 04, 2020, wherein Mr. Ramesh thanked the Noticee for giving him an opportunity to invest Rs.5,00,000/- in their 'Monthly Dividend Plan'. He further stated that according to the commitment given to him by the Noticee, he would be receiving Rs.7,500/- every month. He had invested Rs.5,00,000/- in 'Stampede Capital Limited' on August 24, 2020. Hence, according to his calculation, he should have received Rs.9,250/- on October 01, 2020 (Rs.1,750/- for 7 days of August and Rs. 7,500/- for September 2020). However, he received only received Rs. 5,000/-. 

2.3 Mr. Baleswara Rao, vide email dated October 05, 2020, responded to the email of Mr. Ramesh Rachuri stating that "We surely clarify the same. Thank You for Approaching Us."

2.4 The below extract is the emails exchanged between the Noticee and Budda Sasikala (Client Code VJS001). On review of the client's ledger, the Forensic Auditor revealed that Rs. 5,000/- was paid to the client on October 01, 2020, and an additional amount of Rs. 4,250/- was paid to client on October 06, 2020, which matches with the total amount claimed in the email by the client.

---

On 10/05/2020 10:01AM baleswara rao <baleswara.rao@stampedeicap.com> wrote:

Dear Sir,

We surely clarify the same. Thank You For Approaching Us.

On 10/04/2020 9:13 PM Ramesh Rachuri <rachuri1980@gmail.com> wrote:
2.5 On examining the bank statement of Account No. 00210340004892, HDFC Bank, available on record, it is observed that the Noticee had paid Rs.5,000/- on October 01, 2020, and Rs.4,250/- on October 06, 2020, to Budda Sasikala.

2.6 Hence, the calculation and the request of the client was accepted by the Noticee. The Noticee did not deny the email contents which mentioned “Monthly Dividend Plan” or the calculation or the claim made by the client.

2.7 On examining the client’ ledger available on record, it is observed that the client had invested Rs.5 lakhs on August 21, 2020. The Noticee released monthly pay-outs to the client in the first week of the month. The first monthly pay-out of Rs.9,250/- to the client in October 2020 was calculated @ 1.5% on the investment of Rs.5 lakhs for 7 days of August 2020 and Rs.7,500/- for September 2020. The next three monthly pay-outs of Rs.7,500/- each to the client was calculated @1.5% on the investment of Rs.5 lakhs for October 2020, November 2020 and December 2020.
2.8 The monthly pay-outs @ 1.5% of investment are in line with the Market Making Strategy / Monthly Payout Strategy, wherein the Noticee was offering returns in the range of 1.5% per month to 2.5% per month on minimum investment of Rs.5 lakhs to Rs.10 lakhs. This proves that fixed monthly pay-outs to the clients were based on the schemes prepared by the Noticee.

2.9 Client Code VJS001 was also mentioned in the attachment “Book4.xlsx” enclosed along with the email dated January 05, 2021, from Ms Shilpi D’Souza (Assistant Manager KYC, Corporate) to Mr. Srinagesh (Manager – Sales Support, Corporate), retrieved during the review of ESI. In the said attachment, Rs.5,00,000/- is recorded under the heads "Capital" and "Opening Balance" and Rs.7,500/- is recorded under the head "Payout on OP Bal" against Client Code VJS001.

3. Example 3 - Vemula Aditya (Client Code HDA001) & Pradeep Madana (Client Code HDP002)

3.1 During the review of ESI, the Forensic Auditor retrieved an email dated December 03, 2020, with a subject "RE: Client Payout - Nov 2020" from Mr. Srinagesh (Manager – Sales Support, Corporate) to Ms Shilpi D’Souza (Assistant Manager, KYC) marking a copy to Mr. Srinivas Maya, Mr. Vase Christ and Mr. Venkat Ambala, wherein the amount received from Joel Vivek Kondabattual (Client Code: KAJ003) was classified as “Capital” rather than client funds.

3.2 The below email contained a trail email from Mr. Srinagesh to Mr. Vase Christ, wherein he has sought approval to release the pay-outs to 4 clients, including Vemula Aditya and Pradeep Madani (Pradeep Madana as per client master) based on “2% on Capitals” for November 2020.

```
Dear Shilpi,

Please release the client payout to below customer which was on hold

<table>
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<tr>
<th>Client Code</th>
<th>Client Name</th>
<th>Capital</th>
<th>Net Payout Nov 2020</th>
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<td>KAJ003</td>
<td>JOEL VIVEK KONDA BATTU</td>
<td>300000</td>
<td>9500</td>
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</table>

Regards,

Srinagesh Adepu
```

On 12/02/2020 4:08 PM vase.christ <vase.christ@stampedecap.com> wrote:

Approved

Regards.
3.3 The ledger review of the above stated clients revealed that Vemula Aditya had invested Rs.5,00,000/- on June 24, 2020, and payout amounting to Rs.10,000/- (2% of 5,00,000) was paid to the client every month from August 2020 till March 2021. In case of Pradeep Madana, the client had invested Rs. 5,00,000 on July 01, 2020 and payouts of Rs. 10,000/- was paid to the client every month from August 2020 till March 2021.

3.4 On examining the bank statement of the Account No. 00210340004892, maintained with HDFC Bank, available on record, it is observed that the Noticee had paid Rs.10,000/- to each to Vemula Aditya and Pradeep Madana on November 03, 2020.

3.5 Client Codes HDA001 and HDP002 were also mentioned in the attachment “Book4.xlsx” enclosed along with the email dated January 05, 2021, from Ms Shilpi D'Souza (Assistant Manager KYC, Corporate) to Mr. Srinagesh (Manager – Sales Support, Corporate), retrieved during the review of ESI. In the said attachment, Rs.5,00,000/- is recorded under the heads "Capital" and "Opening Balance" and Rs.7,500/- is recorded under the head "Payout on OP Bal" against Client Codes HDA001 and HDP002. The relevant extract of the attachment “Book4.xlsx” is as follows:
e. The above examples show that the Noticee released pay-outs to various clients at fixed rates or percentages of the clients’ capital/money lying with the Noticee. Further, the Noticee has neither maintained any pre-order confirmation from clients nor put in place systems despite the directions of the erstwhile ICMA of the Exchange. The said activities are akin to a running (discretionary) portfolio management scheme (PMS).

f. The forensic audit report mentions a presentation titled ‘J curve’ that was retrieved from the deleted files during the review of ESI. On examining the said file, it is observed that the Noticee offers to invest client funds in destressed companies through CCPS. The money invested by the client will not be invested in a single company. The Noticee guarantees a 14% annualised return, and the expected period of investment is 3 years.

g. The Noticee had submitted emails received from 50+ clients dated April 2021 wherein the clients had requested pay-outs. On examining the emails, it is evident that the Noticee obtained the emails from the clients post-communication of the interim order dated March 08, 2021, to demonstrate that pay-outs were made to clients based on the clients’ request. During the personal hearing before the Committee, the Noticee had submitted that it had entered into an agreement with the clients for Algo trading. In terms of the said agreement, the clients had requested to provide regular pay-outs on monthly basis, irrespective of profit or loss, as per the need of the respective clients, and it will provide the Algo trading agreement executed with the clients to the Exchange. The Noticee failed to provide any agreement as claimed even after sufficient time was granted. The Noticee’s contention that the clients had sought regular pay-outs irrespective of profit or loss is in itself an admission of the fact that the Noticee was offering assured returns on the capital invested.

h. The presentations retrieved from the laptop of Mr. Maya are schemes that promise a fixed return on investment. The Noticee has not explained why such presentations were made when stockbrokers are prohibited from undertaking such an activity.

i. Compliance of the interim direction issued in meeting dated May 31, 2021

**Interim Direction**
To provide documentary evidence to prove that the Noticee is not providing fix monthly returns/assured returns to the clients within 7 days from the date of direction.

Noticee’s Reply
i. It had not entered into any agreement/understanding with the clients to make pay-outs of fixed monthly interest/income.

ii. It is making the monthly pay-outs as per the clients’ request. The Noticee has submitted the emails received from the clients requesting the monthly pay-outs out of the credit balance lying in the respective client’s account.

iii. The clients are taking back their investment kept with Noticee, and the Noticee is making the pay-outs from the client’s account.

Committee’s finding
The Noticee has submitted letters from 32 clients stating that they do not have any agreement, either oral or written, with the Noticee in terms of return on investment. The clients have only asked for payout every month from their free balance. The Noticee has submitted that they can give any amount at any time subject to free clear balance. Out of the total 79 clients who were given fixed monthly returns, as per the Third SCN, the Noticee has submitted such letters only for 17 clients.

j. It is evident from the examples of fixed monthly returns cited above, and the emails exchanged between the employees of the Noticee and the client that the Noticee has assured returns to the clients and made fixed monthly pay-outs to the clients. These acts of the Noticee are not allowed in the normal course of activities as a broker of the Exchange.

k. The Noticee has engaged in activities other than stockbroking business and therefore violated the provisions of Rule 8(3) (f) of SCRR. Further, the Noticee has engaged in an activity which is akin to running a (discretionary) portfolio management scheme (“PMS”), thereby violating the provisions of Section 12(1) of the SEBI Act read with Regulation 3 of the Portfolio Managers Regulations. Therefore, the Noticee has failed to abide by the Code of Conduct prescribed under SEBI (Stockbroker Regulation), 1992, Schedule-II, Clause A (5).

7.4 Excess pay-outs made to the clients despite insufficient funds in the client ledger
i. On examining the data collated by the inspection team on February 22, 2021, the Exchange observed that the Noticee made excess pay-outs to 3 clients amounting to Rs.4.90 crores despite the clients having a debit balance.
On examining the clients’ ledger, the Forensic Auditor observed that the Noticee made excess pay-outs to 17 clients (37 instances) amounting to Rs.9.40 crores. Out of 17 clients, the Noticee made monthly pay-outs of Rs.27.07 lakhs to 3 clients having an aggregate potential investment of Rs.3.35 crores.

ii. In reply to the Third SCN, the Noticee submitted as under:

a. The Noticee contended that the excess pay-out to 3 clients amounting to Rs.4.90 crores observed by the Exchange is incorrect. The actual amount was Rs.4.66 crores to only 1 client (M/s. Gayi Adi Hatcheries Pvt. Ltd.) who had deposited securities worth Rs.6 crores in the Noticee’s pool account for sale. The Noticee started executing the sale orders of the client; however, since there was insufficient liquidity in the market, the securities only worth Rs. 60 lakhs could be sold. Based on the stock collateral with the Noticee, the client requested for early pay-out of Rs.4.66 crores. The remaining amount of Rs.4.06 crores, other than the sale proceeds, was given by way of cheque. The Noticee had recorded the relevant entry in the accounts. The cheque received from M/s. Gayi Adi Hatcheries Pvt. Ltd. was cleared after 14 days. Meanwhile, the Noticee received the full sale proceeds within 4 days, and there was nothing outstanding from the client.

b. The Noticee has provided the details of excess pay-outs to 17 clients in a separate annexure. As demonstrated in the annexure, the Noticee has not made any excess pay-outs to the clients as alleged in the Third SCN.

iii. The Committee finds as under:

a. The Noticee has stated that it had made excess pay-outs to 1 client amounting to Rs.4.66 crores instead of 3 clients amounting to Rs.4.90 crores as alleged in the Third SCN. As evident from the forensic audit report, the Noticee had made excess pay-outs to Gayi Adi Hatcheries Pvt. Ltd., a related entity, against the stock collaterals of Apollo Microsystems Ltd. worth Rs.6 crores deposited by Gayi Adi Hatcheries Pvt. Ltd. in the pool accounts of the Noticee. The Noticee started executing the sale orders of the client; however, since there was insufficient liquidity in the market, the securities only worth Rs. 60 lakhs could be sold. Based on the stock collateral with the Noticee, the client requested for early pay-out of Rs.4.66 crores. The remaining amount of Rs.4.06 crores, other than the sale proceeds, was given by way of cheque. Hence, the Noticee had advanced the funds to Gayi Adi Hatcheries Pvt. Ltd. without the entity having an obligation to receive the funds.

b. The Noticee advanced funds amounting to Rs.4.66 crores to Gayi Adi Hatcheries Pvt. Ltd. on January 22, 2021, and January 25, 2021. The
Noticee reported a shortfall of clients’ funds in during the period January 15, 2021, to February 12, 2021, in the range of Rs.2.02 crores to Rs.5.24 crores in its submissions towards weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers. This proves that the Noticee misused the clients’ funds to make payment to a related entity, i.e. Gayi Adi Hatcheries Pvt. Ltd.

c. Regarding the excess pay-outs made to 17 clients, Annexure 14 to the Noticee’s reply does not provide details of 17 clients. In fact, the Annexure is the ledger extract purported to be related to Gayi Adi Hatcheries. Hence, the Noticee has not satisfactorily replied to the inspection observation.

d. Based on the scrutiny of the ledgers of the 17 clients by the Forensic Auditor, it was observed that the Noticee has made payments to these clients who had debit balance / insufficient credit in their ledger accounts. The same is evident from the ledger extract for sample clients, viz. Umarani Sriramula (Client Code US0005), Mayank Jagwani (Client Code CH0024) and Arun Beri (Client Code CH0027) which is reproduced below:

**Example 1 - Umarani Sriramula (Client Code US0005)**

On examining the client’s ledger available on record, it was observed that the Noticee had released a pay-out of Rs.7,500/- on February 5, 2021, to the client despite debit balance of Rs.1,23,434.38, resulting in a further increase in the debit balance to Rs.1,30,934.38.

**Examples 2 - Mayank Jagwani (Client Code CH0024)**

On examining the client’s ledger available on record, it was observed that the Noticee had released a pay-out of Rs.21,000/- on October 6, 2020, to the client despite credit balance of Rs.8,671.27, resulting in a debit balance of Rs.12,328.73.

**Example 3 - Arun Beri (Client Code CH0027)**

On examining the client’s ledger available on record, it was observed that the Noticee had released two pay-outs of Rs.6,00,000/- and Rs.3,50,000/- on September 1, 2020, to the client despite credit balance of Rs.2,62,420.15, resulting in a debit balance of Rs.10,90,579.85.

Based on the above examples, it is observed that the Noticee had made excess pay-outs to the clients despite insufficient funds in the clients’ ledger.
d. The Noticee has therefore indulged in business other than securities except as a broker or agent not involving any personal financial liability. Thus, the Noticee has violated the provisions of Rule 8(3)(f) of SCRR.

7.5 Shortfall in net worth

i. On examining the data collated by the inspection team, the Exchange observed that the Noticee’s net worth as on September 30, 2020, December 31, 2021, and February 08, 2021, was (-ve) Rs.3.35 crores, (-ve) Rs.5.13 crores and (-ve) Rs.7.14 crores, respectively. On verifying the Noticee’s provisional financials for the period April 01, 2020, to February 28, 2021, the Forensic Auditor observed that the Noticee’s net worth was (-ve) Rs. 7.44 crores as on February 28, 2021.

The Noticee did not deduct the doubtful debts and advances to the tune of Rs.8.64 crores [Stampede Enterprises India Pvt. Ltd. (“Stampede Enterprises”) – Rs.1.08 crores, Spacenet – Rs.1.70 crores, JVTR Consulting (OPC) Ltd. (“JVTR Consulting”) – Rs. 1.62 crores and Gayi Adi Management – Rs. 4.24 crores] and prepaid expenses to the tune of Rs.0.11 crores, aggregating to Rs.8.75 crores as observed in the forensic audit report and the net worth submitted by the Noticee.

It is observed that the Noticee has misrepresented its net worth by submitting a positive net worth of Rs.1.31 crores as on February 28, 2021.

ii. In reply to the Third SCN, the Noticee submitted as under:

a. The Noticee had submitted the relevant supporting documents to the Exchange/Forensic Auditor with regard to the allegations on shortfall in the net worth to substantiate its claim.

b. In the interim order dated March 08, 2021, the Committee has concluded that the Noticee has recouped the shortfall in clients’ funds as on February 16, 2021. The Noticee had submitted the net worth certificate dated March 06, 2021, certifying the net worth on February 28, 2021, along with computation of the net worth.

c. The net worth calculation was done by adopting the method as per Schedule VI of SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2013/Dr L. C. Gupta Committee Report. Hence, there is no misrepresentation by the Noticee while submitting the net worth indicating positive net worth as on February 28, 2021.

d. For the non-deduction of alleged doubtful debts and advances of Stampede Enterprises and Spacenet, the amount outstanding was not related to the business. The Noticee has not given any advance to Stampede Enterprises and Spacenet. Based on the clients’ consent, the erstwhile management of the Company, transferred funds to its group companies viz. Stampede Enterprises and Spacenet towards
subscription of CCPS. Subsequently, the same was withdrawn/cancelled due to an objection raised by the Exchange. One of the present promoters of the Noticee discussed the same with erstwhile management for a refund of the amounts received from the client. The erstwhile management of Noticee informed that since the proceeds received has already been deployed in the business, the repayment of funds would take time. Upon hearing from the erstwhile management, the present promoter viz. Mr. J.V. Tirupati Rao infused his own funds to meet the requirements of Exchange to avoid any non-compliance. Since the amount was given from the client funds and the existing promoters have returned the same and the transaction was not related to normal course of business, the Noticee has not considered the same while calculating the net worth as on February 28, 2021.

e. The outstanding amount of Rs.1.70 crores from Spacenet was recovered on March 31, 2021. Likewise, the outstanding amount of Rs.1.08 crores from Stampede Enterprises was recovered to the extent of Rs.1 crore given towards subscription of CCPS and Rs 7.94 lakhs is outstanding as on March 31, 2021.

f. The outstanding amount of Rs.1.62 crores from JVTR Consulting, is neither a debt nor advance made by the Noticee. The said amount is outstanding towards the sale of software by the Noticee at a 100% markup on February 28, 2021. The transaction is the transfer of asset at a profit and the amount of Rs.1.62 crore is receivable from JVTR Consulting. The said amount is trade receivables and was pending for less than 30 days as on February 28, 2021. Since the period of debt was less than 30 days, as per Dr. L C Gupta net worth computation method, the same was not computed in the net worth.

g. The outstanding amount of Rs.4.24 crores from Gayi Adi Management is towards services and sharing manpower and skilled resources with Gayi Adi. The Noticee shared some identified expenses incurred with a 15% markup and raised an invoice of Rs.4.24 crores on Gayi Adi Management. The amount outstanding was also less than 30 days and hence as per Dr. L C Gupta’s method the same was not computed in net worth.

h. In view of the aforesaid, the Noticee submitted that as per the method of Dr L C Gupta, the net worth of the Noticee as on February 28, 2021, was Rs. 1.21 crore.

i. The Noticee has submitted fresh net worth certificate which shows that there was/is no negative net worth and Noticee is in compliance with Rule 33 of Chapter III of NSEIL Rules.

iii. The Committee finds as under:

a. The funds given to Stampede Enterprises and Spacenet (group company of erstwhile management) towards subscription of CCPS in
August 2020 and October 2020 were not returned by the said entities as on February 28, 2021. This is evident from the Noticee’s reply to the third SCN that these funds were recovered in March 2021. As per Schedule VI of SEBI (Stock Brokers) Regulations, 1992, any amount given / advanced for more than 90 days is required to be deducted from capital and free reserves while computing net worth.

b. Gayi Adi Management and Mr. Jonna Venkata Tirupati Rao are the Proposed/New Promoter of the Noticee. JVTR Consulting is a one-person company with Mr. Jonna Venkata Tirupati Rao as the sole shareholder. Hence, as per schedule VI of SEBI (Stock Brokers and sub-brokers) (Second Amendment) Regulations, 2013, any amount given/advanced to associate/group company is required to be deducted from capital and free reserves irrespective of the number of days it is due.

c. Despite the recovery of the funds from Spacenet (Rs.1.7 crores) and Stampede Enterprises (Rs.1 crore), the net worth of the Noticee is negative Rs. 4.74 crores, which is still below the minimum net worth prescribed by the Exchange.

d. The Noticee has provided a copy of an agreement entered with Gayi Adi Management for sharing of 40% of expenses with 15% markup. The said agreement is dated February 28, 2021, and is effective from April 01, 2020 i.e. retrospectively. Such an act of the Noticee proves that the said agreement was entered into for inflating the profits and is an afterthought. Further, the invoices raised on Gayi Adi Management and JVTR Consulting are dated February 28, 2021, which proves that the said invoices were also issued as an afterthought.

e. Compliance of the interim direction issued in meeting dated May 31, 2021

**Interim Direction**
To recoup the shortfall of net worth in entirety within 7 days from the date of the order and submit evidence to the satisfaction of the Exchange

**Noticee’s Reply**
The Noticee, vide email dated June 07, 2021, reiterated the submissions mentioned above and further informed that it had recovered the outstanding amount of Rs.7.94 lakhs from Stampede Enterprise.

**Committee’s Findings**
In reply to the interim direction, the Noticee re-iterated its submission

f. The Noticee has failed to adhere to the minimum net worth prescribed for Trading Members by the Exchange. Thus, the Noticee has acted in

7.6 Engagement as a principal or employee in a business other than that of securities involving personal financial liability

i. On examining the data collated by the inspection team on February 22, 2021, the Exchange observed that the Noticee had violated the provision of Rule 8(3)(f) of SCRR by extending loans to 3 entities, viz. Stampede Enterprises (Rs.2 crores), Spacenet (Rs.2 crores), and Agri - Tech (India) Ltd. (Rs.2.7 crores) aggregating to Rs.6.7 crores.

Out of the entities mentioned above, Stampede Enterprises and Spacenet are related entities of the Present/Old Promoters of the Noticee. On review of the ESI, it is observed that 19 clients have potentially opted for the CCPS amounting to Rs.4 crores. Out of Rs.4 crores, Rs. 2 crores are transferred to Spacenet and the balance Rs. 2 crores are transferred to Stampede Enterprises.

The Forensic Auditor reviewed the bank statements and observed that the money was initially transferred from the client bank account to Noticee’s own account and subsequently transferred to Spacenet and Stampede Enterprises. However, there were no corresponding entries recorded in the client ledgers to prove that the investments were made on behalf of the clients.

The Noticee extended loans to Stampede Enterprises and Spacenet and thus engaged in business other than securities involving personal financial liability. The Noticee also extended unsecured loans of Rs. 2.7 crores to a non-related entity, viz. Agri-Tech (India) Ltd. in December 2020, which is in the nature other than that of broking business. Therefore, the acts of the Noticee are in contravention of the provisions of Rule 8(3)(f) of SCRR.

ii. In reply to the Third SCN, the Noticee submitted as under:

a. The Noticee has not indulged in any activity or business other than securities involving personal financial liability. As a one-time transaction, the Noticee extended a short-term inter-corporate loan to Agri Tech (India) Ltd. @13% interest per annum payable on demand. The Noticee has not extended any loan/ICD to any party/company other than this one-time transaction.

b. There is no erosion of such amount from the net worth of the Noticee as on December 31, 2020. The Noticee transferred Rs.4 crores to Stampede Enterprises and Spacenet towards subscription to CCPS and...
Rs.2.7 crores to Agri Tech (India) Ltd. is an inter-corporate loan. These monies do not belong to clients but are own and spare funds of the Noticee which are invested in the CCPS and ICDs. This is not in the nature of business. It is a one-off investment and cannot be treated in violation of Rule 8 (3) (f) of SCRR.

c. Given the above, the Noticee has not indulged in any business other than securities and hence has not acted in violation of the provisions of regulation as mentioned in the show-cause notice.

iii. The Committee finds as under:

a. The Noticee has accepted that it had extended a short-term inter-corporate loan to Agri Tech (India) Ltd. @13% interest per annum repayable on demand.

b. Though the Noticee extended funds to Spacenet and Stampede Enterprises towards subscription for CCPS, subsequently, the same was withdrawn/cancelled due to an objection raised by the Exchange. However, the money was not returned by Spacenet and Stampede Enterprises since they had already deployed the funds in the business.

c. By extending loans to the 3 entities, the Noticee deployed its funds in a business other than that of the securities business. Furthermore, these loans/advances have eroded the net worth of the Noticee as on December 31, 2020. Thus, the Noticee acted in violation of the provisions of Rule 8(3)(f) of SCRR, SEBI Circular No. SMD/POLICY/CIR-6/97 dated May 07, 1997, and Rule (5)(b) of Chapter III of the Rules of the Exchange.

7.7 Observation pertaining to settlement of clients’ funds and securities

i. Non-issuance of statement of funds

On examining the data collated by the inspection team on February 22, 2021, the Exchange, vide email dated February 25, 2021, sought information relating to the issuance of the statement of funds to the clients at the time of settlement. The Forensic Auditor too, sought the said information; however, the same was not submitted by the Noticee.

ii. Non-settlement of clients’ funds

On examining the data collated by the inspection team on February 22, 2021, the Exchange observed that the Noticee had not settled the funds of 16 inactive clients (clients who have not traded post-September 30, 2020) as on February 19, 2021, involving an amount of Rs.20 lakhs. The Forensic Auditor too verified the clients’ ledgers and observed that the Noticee had
not submitted any documentary evidence to demonstrate the settlement of clients’ funds for the quarters ended September 2020 and December 2020.

iii. Non-settlement of client securities

On examining the demat account statement, the Exchange observed that the Noticee retained shares in its demat account from January 31, 2021, to February 19, 2021, and did not return the said shares to the clients’ demat account within 1 day from the payout despite credit balance in the clients’ ledger in the case of 13 clients out of 276 clients amounting to Rs.3,86,986/-

iv. In reply to the Third SCN, the Noticee submitted as under:

a. The Noticee, vide email dated April 30, 2021, provided sample retention statements and some clients’ ledger to the Forensic Auditor. Further, the Noticee explained that due to technical problem with the software, the Noticee could not settle the clients in September 2020 and December 2020. However, the Noticee settled the clients’ funds in March 2021, which was informed to the Exchange. Hence the allegation that the Noticee has not submitted the information sought by Forensic Auditor is false.

b. Non-settlement of inactive clients - There were some technical issues with the Noticee’s back-office. These issues are resolved. Further, the amount involved in non-settlement was Rs.20 lakhs.

v. The Committee finds as under:

a. The Noticee could not settle the clients in September 2020 and December 2020 due to technical problem with the software, the Noticee.

b. The Forensic Auditor, vide email dated April 19, 2021, advised the Noticee to provide the documents relating to settlement of clients for the quarters ended September 2002 and December 2020 by April 21, 2021. As the Noticee failed to provide the said documents by April 21, 2021, the Forensic Auditor, vide email dated April 27, 2021, advised the Noticee to provide the said documents by April 28, 2021, failing which, it shall be construed to be a case of non-provision of information during the course of audit. However, the Noticee provided the said documents on April 30, 2021, i.e after the prescribed timeline.

c. The Noticee failed to address the observation on the non-settlement of clients’ securities, i.e. the Noticee did not transfer the securities to the clients’ demat account despite credit balance in the clients’ ledger.

d. Compliance of the interim direction issued in meeting dated May 31, 2021
Interim Direction
To provide documentary evidence for settlement of clients’ accounts as per the clients’ preference for the period April 01, 2020, to March 31, 2021, within 7 days from the date of the interim directions.

Noticee’s Reply
The Noticee, vide email dated June 07, 2021, provided an Annexure listing the clients-wise quarter-wise settlement date.

Committee Findings
The Noticee has not provided any documentary evidence viz. ledgers, statements of funds and securities, retention statements, extract of bank and demat statements to prove the settlement of clients’ funds and securities. In reply to the Third SCN, the Noticee had submitted that it had not settled the clients’ accounts in the quarters ending September 2020 and December 2020 due to back-office software issues. Hence, it cannot be concluded that the Noticee has settled the clients’ accounts during the period April 2020 to March 2021.

e. The concept of monthly or quarterly running settlement of clients’ accounts by the Trading Member 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. Trading Members are mandated to send 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 along with a statement explaining the retention of funds/securities within five days from the date when the account is settled. The Noticee neither settled the clients’ funds and securities nor issued the statement of funds to its clients at the time of settlement of clients’ accounts.


7.8 Non-reconciliation of securities recorded in the back-office with the securities available in the beneficiary account

i. On examining the client-wise scrip-wise holding as per the back-office records (register of securities), the weekly holding statements reported to the Exchange and the securities available in the beneficiary accounts maintained by the Noticee as on February 19, 2021, the Forensic Auditor observed as under:
a. Securities available in the beneficiary accounts were not recorded in the register of securities for 41 scrips valued at Rs.2.81 crores
b. Securities recorded in the register of securities were not available in the beneficiary accounts for 1 scrip valued at Rs.2,230/-

ii. In reply to the Third SCN, the Noticee submitted that it had provided the documents pertaining to non-reconciliation and the holding statements to substantiate its claim and pointed out that the Noticee has not reported any excess securities. Hence, the allegation that the Noticee is in violation of the provisions of Exchange Circular No. NSE/INSP/10605 dated April 21, 2008, and Exchange Circular No. NSE/INNSP/29096 dated March 11, 2015, is not correct. The Noticee, vide email dated April 26, 2021, submitted the documents i.e. holding statements and supporting documents.

iii. The Committee finds as under:

a. The Noticee has provided a copy of holding statement without providing any satisfactory reply for the observation on the securities available in the beneficiary accounts but not recorded in the register of securities.
b. The securities available in the beneficiary accounts were not recorded in the register of securities for 41 scrips valued at Rs.2.81 crores. The Noticee did not carry out periodical reconciliation of the securities recorded in the register of securities with the securities available in the beneficiary accounts.
c. Trading Members are advised to reconcile client beneficiary account/s and the register of securities on a quarterly basis and maintain complete audit trail and documentation of such reconciliation. Thus, the Noticee acted in violation of the provisions of Exchange Circular No. NSE/INSP/10605 dated April 21, 2008, and Exchange Circular No. NSE/INSP/29096 dated March 11, 2015.

7.9 Non-reporting of bank accounts to the Exchange

i. On verifying the list of bank accounts provided by the Noticee and the Exchange, the Forensic Auditor observed that the Noticee did not disclose 24 out of 34 bank accounts to the Exchange.

ii. In reply to the Third SCN, the Noticee submitted as under:

a. The Noticee has a bank account with HDFC Bank relating to Exchange’s transactions. Further, Noticee also has a current bank account with HDFC Bank. Almost all the transactions (99.99%) are done from the said accounts. The Noticee forwarded the statement of the said bank accounts to Exchange and Forensic Auditor.
b. The Exchange/Forensic Auditor sought the accounts details directly from HDFC Bank. Accordingly, HDFC Bank forwarded the account details to the Exchange/Forensic Auditor. The Noticee also requested the other bankers to forward the statement of accounts to the Exchange/Auditor. However, due to the non-availability of staff during the lockdown, the banks are taking time to send the requisite details to Exchange/Forensic Auditor.

c. The bank accounts mentioned at Sr. Nos. 1 to 8 in Exhibit 12 to the show-cause notice are Exchange related accounts maintained with HDFC Bank wherein the Noticee transfers funds for pay in/payout and other Exchange related dues. Despite regular follow-ups with the bank officials, the Noticee has not yet received the statement of accounts.

d. The bank accounts mentioned at Sr. Nos. 9 to 16 in Exhibit 12 to the show-cause notice are maintained with ICICI Bank. These bank accounts are opened as an alternative to the bank accounts maintained with HDFC Bank. However, no transactions have been done in the said accounts to date. The Noticee, vide email dated April 16, 2021, forwarded the statement of accounts to the Forensic Auditor.

e. The bank accounts mentioned at Sr. Nos. 17 and 20 in Exhibit 12 to the show-cause notice is maintained with SBM Bank and Bank of Baroda, respectively. The Noticee, vide email dated April 28, 2021, forwarded the statement of account to the Forensic Auditor.

f. The bank accounts mentioned at Sr. Nos. 19 and 21 to 24 are dormant. The Noticee is unable to obtain the statement of accounts, as the said accounts need to be reactivated, but due to a shortage of staff, the bank is unable to accede to the Noticee’s request.

g. The allegation of non-reporting of all the bank accounts is false and not tenable.

iii. The Committee finds as under:

a. The Noticee has misunderstood the observation and commented on the availability of bank account statements rather than providing comments for non-reporting of the bank accounts to the Exchange through the member portal. Exchange Circular No. NSE/INSP/2016/33276 dated September 27, 2016, requires the Trading Members to report the existing and new bank accounts to the Exchange. Thus, the Noticee has violated the provisions of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016

7.10 Incorrect data reported in the weekly holding statement

i. On examining the weekly holding statement, beneficiary accounts, and register of securities maintained in the back-office as on February 19, 2021, the Exchange observed as under:
a. Securities reported in the weekly holding statement but not recorded in the register of securities in case of 32 out of 62 scrips (61 out of 115 clients) amounting to Rs.2.03 crores

b. Securities recorded in the register of securities but not reported in the weekly holding statement in the case of 52 out of 62 scrips (112 out of 115 clients) amounting to Rs.7.98 crores

c. Securities available in the beneficiary accounts but not reported in the weekly holding statement in the case of 56 out of 64 scrips amounting to Rs.8.69 crores

ii. On examining the transactional level reconciliation of the weekly holding statement with the client holdings obtained from the depositories (NSDL/CDSL), trade obligations across exchanges and shortage data from clearing corporations, the Exchange observed that the Noticee reported incorrect data towards the weekly holding statement.

iii. In reply to the Third SCN, the Noticee submitted that it had informed the Exchange and the Forensic Auditor that there was a back-office issue and the software was not working properly. Hence, the Noticee changed the back-office software. Further, the Noticee submitted the reconciled data along with the supporting documents to the Exchange as and when requested by the Exchange.

iv. The Committee finds the Noticee has attributed the incorrect data reported in the weekly holding to a software issue in its back-office. The data reported in the weekly holdings is critical as the Exchange uses it for offsite monitoring of the activities of Trading Members. The Exchange laid out the procedure for submission of the data in its circular. The Member needs to ensure that the data is verified before submission to the Exchange. The Noticee uploaded incorrect data in the weekly holding statement as of February 19, 2021. Thus, the Noticee acted in violation of the provisions of Exchange Circular No. NSE/INSP/39855 dated January 03, 2019.

7.11 False reporting of margin collected from clients

i. On examining the data collated by the inspection team on February 22, 2021, the Exchange observed that the Noticee had falsely reported the margin/MTM loss collected from the clients in 9 instances of 9 clients out of 146 instances of 112 clients selected for sample scrutiny amounting to Rs.32,13,871/-.

ii. In reply to the Third SCN, the Noticee submitted that it had informed the Exchange that the back-office system generates the margin reports; however, due to technical malfunction of software, there was an error in the reports. Hence, the Noticee changed the back-office software.
iii. The Committee finds as under:

a. The Noticee accepted the inspection observation and attributed the false reporting of margin to the technical malfunction of back-office software. This clearly indicates lack of risk monitoring systems that *inter alia* poses a potential threat to the security of the client’s assets.

b. Trading Members are mandated to collect upfront margins from their clients and report to the Exchange/NSE Clearing Ltd. The Noticee has falsely reported the margin collected from the clients in 9 instances amounting to Rs.32.13 lakhs. Thus, the Noticee has acted in violation of Regulation 3.10 of NSEIL Regulations (F&O Segment), Exchange Circular No. NSE/INSP/10367 dated February 28, 2008, and Exchange Circular No. Exchange Circular NSE/INSP/45191 dated July 31, 2020.

7.12 Discrepancies in the books of accounts maintained by the Noticee

i. On examining the data collated by the inspection team on February 22, 2021, the Exchange observed that the Noticee recorded book entries to the tune of Rs.4.06 crores without receipt of the amount from the client. The actual receipt of the amount in the bank statement was after 14 days. To set off the debit balance of Rs.4.64 crores, the Noticee recorded credit entries on February 01, 2021, and February 02, 2021, aggregating to Rs.4.06 crores in the ledger of M/s. Gayi Adi Hatcheries Pvt. Ltd. (Client Code GH0001) without recovering the same. The said debit balance was pending to be recovered since January 25, 2021. However, as per the bank statement, the cheque was deposited in the bank after 14 days, i.e., on February 15, 2021, and February 16, 2021, and credited in the bank statement on the same day.

ii. In reply to the Third SCN, the Noticee submitted that the payment was made to the client who had deposited securities worth Rs.6 crores in the Noticee’s pool account for sale. The Noticee started executing the sale orders of the client; however, since there was insufficient liquidity in the market, the securities only worth Rs. 60 lakhs could be sold. Based on the stock collateral with the Noticee, the client requested for early pay-out of Rs.4.66 crores. The remaining amount of Rs.4.06 crores, other than the sale proceeds, was given by way of cheque. The Noticee had recorded the relevant entry in the accounts. The cheque received from M/s. Gayi Adi Hatcheries Pvt. Ltd. was cleared after 14 days. Meanwhile, the Noticee received the full sale proceeds within 4 days and nothing was outstanding from the client.

iii. The Committee finds as under:
a. The Noticee recorded entries of receipt of the funds in its books of accounts without depositing the cheque/realizing the funds on the date of entry with an intent to reflect the availability of funds. This amounts to misrepresentation in the books of accounts.
b. The Noticee has not maintained the books of accounts in a transparent manner reflecting the true state of affairs. Thus, the Noticee acted in violation of the Regulations 6.1.1 and 6.1.2 of NSEIL Regulations (CM and F&O Segments) of the Exchange.

7.13 Failure to testify or give necessary information

i. The Exchange observed that the Noticee did not provide the following documents during inspection:

a. Contract notes as per the sample list provided by Exchange
b. Statement of accounts for funds and securities issued to the clients during the inspection period April 01, 2020, to February 19, 2021
c. Pre-order confirmation of orders placed by the clients
d. Client-wise break-up for the brokerage charged on the following dates:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27-Aug-2020</td>
<td>8,83,797</td>
</tr>
<tr>
<td>14-Jan-2021</td>
<td>6,23,227</td>
</tr>
<tr>
<td>21-Jan-2021</td>
<td>5,98,237</td>
</tr>
<tr>
<td>27-Jan-2021</td>
<td>28,35,170</td>
</tr>
<tr>
<td>28-Jan-2021</td>
<td>29,22,287</td>
</tr>
<tr>
<td>29-Jan-2021</td>
<td>11,67,631</td>
</tr>
</tbody>
</table>

e. List of the clients to whom software income has been charged and the reason for charging the same - minimum details required such as date, client code, client name, software amount charged, purpose etc.
f. Complete list of clients to whom additional brokerage has been charged and reasons for charging - additional brokerage has been charged in the ledger, for instance, the Noticee has charged Rs.4.8 lakhs additional brokerage to the clients as of June 30, 2020.
g. Client-wise break-up of the entries for brokerage reversal in the brokerage ledger - as per the brokerage ledger, the Noticee has reversed brokerage of Rs.33.11 lakhs out of Rs.2.06 crores, i.e. 16.07% of the brokerage earned during the period October 01, 2019, to February 19, 2021. Out of brokerage reversal of Rs.33.11 lakhs, Rs.22.76 lakhs have been reversed on September 11, 2020.

ii. The Forensic Auditor observed that the Noticee did not provide the following documents during the audit:
a. 17 bank account statements
b. Email shared with the sales team stating that the Noticee does not have any fixed return schemes offered to clients
c. Fund settlement documents for the quarter ending September 2020 and December 2020
d. Fund settlement documents shared with the clients
e. Clarifications for selected JVs in the client ledger
f. Clarifications/ reasoning for difference in securities holding as per the demat accounts and the back-office.
g. Clarifications for all debit balance entries shared with the Noticee

iii. In reply to the Third SCN, the Noticee submitted as under:

a. The Noticee claimed that the following documents could not be provided to the Exchange/Forensic Auditor for reasons therein.

   1. Statement of accounts for funds and securities issued to the clients during the inspection period April 01, 2020 to February 19, 2021 - The Noticee has not sent statement of accounts to its clients due to back-office issues.
   2. Pre-order confirmation of orders placed by clients – As the maximum volume of the Noticee is generated through Algorithm trading system, the Noticee is not having pre-order confirmation of orders placed by its clients. For retail clients, the Noticee is in process of deploying the pre-order confirmation system.
   3. Fund settlement documents for the quarter ending September 2020 and December 2020 - Due to technical problem with the software, the Noticee settled the clients in March 2021.

b. The Noticee has provided the following documents along with its reply to the Third SCN:

   1. Client-wise break-up for the brokerage on the dates mentioned in the show-cause notice, list of the clients to whom software income has been charged and list of clients to whom additional brokerage has been charged
   2. Client-wise break-up of the entries for brokerage reversal in brokerage ledger
   3. Email shared with the sales team stating that the Noticee did not have any fixed return schemes offered to clients

c. The Noticee has claimed that the following documents were already provided during the audit to the Exchange/Forensic Auditor:

   1. Contract notes for sample list provided by Exchange
   2. 17 bank account statements
3. Fund settlement documents shared with clients
4. Clarifications for selected JVs in the client ledger
5. Clarifications/ reasoning for difference in securities holding as per the demat accounts and the back-office
6. Clarifications for all debit balance entries shared with the Noticee

d. Due to lockdown imposed in the State of Telangana, some information/documents were not submitted due to non-accessibility to the office. Hence the Noticee has submitted the said information/documents along with its reply to the Third SCN.

iv. The Committee finds as under:

a. **Documents/Information sought by the Exchange**

1. Contract notes as per the sample list provided by Exchange – The Noticee, vide email dated February 26, 2021, provided the email logs of multiple documents. On examining the emails logs, it was observed that Noticee had provided email logs for daily margin statement and not for contract notes issued to the clients. Despite reminders, vide emails dated April 10, 2021, and April 22, 2021, the Noticee failed to submit the required documents to the Exchange.

2. Statement of accounts for funds and securities issued to the clients during the inspection period April 01, 2020, to February 19, 2021 were not provided to the Exchange and the Noticee has accepted the inspection observation.

3. Pre-order confirmation of orders placed by the clients were not provided to the Exchange and the Noticee has accepted the inspection observation.

4. For other non-submissions – The Noticee has accepted the inspection observation and provided the data in reply to the Third SCN.

b. **Documents/Information sought by the Forensic Auditor**

1. 17 bank account statements – The Noticee provided the bank account statements claiming that they constitute 99.99% of the transactions. The Forensic Auditor, email dated April 27, 2021, informed the Noticee that the bank statements for 17 bank accounts are still pending. Hence, the Noticee’s contention is not acceptable.

2. Email shared with the sales team stating that the Noticee does not have any fixed return schemes offered to clients - The Noticee has accepted the inspection observation and provided the data in reply to the Third SCN.
3. Fund settlement documents for the quarter ending September 2020 and December 2020 – The Noticee accepted the observation.

4. Fund settlement documents shared with the clients - The Forensic Auditor, vide email dated April 19, 2021, advised the Noticee to provide the fund settlement documents shared with the clients. As the Noticee failed to provide the said documents by April 21, 2021 the Forensic Auditor, vide email dated April 27, 2021, advised the Noticee to provide the said documents by April 28, 2021, failing which, it shall be construed to be a case of non-provision of information during the course of audit. However, the Noticee provided the said documents on April 30, 2021, i.e after the prescribed timeline. Hence, the Noticee’s contention is not acceptable.

5. Clarifications for selected JVs in the client ledger – The Forensic Auditor, vide email dated April 27, 2021, informed the Noticee that it has failed to provide the clarifications for selected JVs in the client ledger.

6. Clarifications/ reasoning for difference in securities holding as per the demat accounts and the back-office – The Forensic Auditor, vide email dated April 19, 2021, informed the Noticee that the clarification provided by the Noticee is incomplete. The Noticee did not reply to the said email of the Forensic Auditor.

7. Clarifications for all debit balance entries shared with the Noticee. – As the Noticee provided clarification for 31 out of 75 debit balance entries, the Forensic Auditor, vide email dated April 27, 2021, informed the Noticee that the clarification provided by the Noticee is incomplete.

c. Given the above, it is evident that the Noticee has provided reasons for non-submission or provided incomplete documents/information or provided the documents/information along with the reply to the Third SCN. The Noticee failed to submit the requisite documents/information to the Exchange to facilitate the conduct of inspection of the books and records of the Noticee. Thus, the Noticee has acted in violation of Regulation 7.3 of NSEIL Regulations (CM and F&O) read with Byelaw 2 (h) of Chapter V of NSEIL Byelaws NSEIL Byelaws.

SUMMARY OF KEY OBSERVATIONS & COMMENTS OF MCSGFC

8. The Noticee changed the directors on 41 occasions since February 2012 and changed the shareholding on 64 occasions since March 2015 without obtaining the prior approval of the Exchange. The Noticee attributed the non-compliance to the erstwhile Management and applied to the Exchange for regularizing the irregularities in September 2019. Though the Noticee was aware that the application for change in shareholding is pending due to non-submission of requisite details, the Noticee
This is an electronic letter which does not require signature

still changed the shareholding resulting in change in control in November 2020 without obtaining the prior approval of the Exchange. As per Regulation 9(c) of Chapter II of SEBI (Stock Broker) Regulations, 1992, any registration granted to a Trading Member shall be subject to inter alia obtaining prior approval of SEBI for change in control. By undertaking change in the control and change in the shareholding and directors on multiple occasions, the Noticee has violated the provisions of Regulation 9(c) of Chapter II of SEBI (Stock-Broker) Regulations, 1992 and Exchange Circular No. NSE/MEM/18010 dated June 08, 2011, and is deemed guilty of misconduct under Rule 3 (b) and Rule 3 (e) of Chapter IV of NSEIL Rules.

9. The Noticee has not maintained the net worth prescribed for Trading Member by the Exchange since September 30, 2020. As per Regulation 9(g) of Chapter II of SEBI (Stock Broker) Regulations, 1992, any registration granted to a Trading Member shall be subject to inter alia maintaining the minimum net worth as specified in Schedule VI at all times. Further, Rule 33 of Chapter III of NSEIL Rules state that the Relevant Authority of the Exchange shall from time to time prescribe conditions and requirements for continued admittance to trading membership which may, inter alia, include maintenance of minimum net worth and capital adequacy, renewal of certification, if any. Further, upon the failure to meet those requirements, any person’s trading membership shall be liable to be terminated. The negative net worth of any Trading Member indicates its precarious financial condition and poses a threat not only to the clients’ assets but also to the settlement system. Thus, the Noticee has violated the provisions of Regulation 9(g) of Chapter II of SEBI (Stock Broker) Regulations, 1992, and Rule 33 of Chapter III of NSEIL Rules.

10. The Noticee has misused the clients’ funds in October 2020 and January 2021, resulting in a shortfall of clients’ funds. Despite the Exchange issuing the Second SCN to the Noticee in December 2020 intimating the misuse of clients’ funds in October 2020, the Noticee again misused the clients’ funds in January 2021, resulting in a shortfall of clients’ funds. The continuous reporting of shortfall in clients’ funds by the Noticee reflects a lack of discipline and professionalism in the conduct of business, which has profound and far-reaching consequences on the securities market. Hence, the Noticee has blatantly disregarded the Second SCN and thereby continued to violate the provisions of Regulation 4.5.3 (e) of the NSEIL Regulations (CM and F&O Segments) and Exchange Circular No. NSE/INSP/33276 dated September 27, 2016.

11. It is evident from the records that the Noticee was primarily involved in proprietary trading prior to July 2020. As per the UCI database of the Exchange, 159 clients traded during January 01, 2020, to February 16, 2021. Out of the 159 clients, codes for 130 clients were created between July 2020 and February 16, 2021. Hence, there was a spurt of clients registered with the Noticee between July 2020 and February 16, 2021. The forensic audit report dated May 13, 2021, has identified presentations on schemes inviting investments for fixed returns and fixed monthly pay-outs to 79 clients. This clearly indicates that the Noticee had inducted these
clients with the assurance of fixed returns. It is pertinent to note that the Noticee’s client base was below 30 clients before July 2020 which subsequently increased to 159 clients post acquisition by Mr. Jonna Venkata Tirupati Rao and Gayi Adi Management. Further, the Noticee made fixed monthly pay-outs to the various clients despite insufficient credit balance in their accounts, which is also evident from the extracts of the ledgers and emails exchanged between the employees of the Noticee and with the client as provided above. These activities of the Noticee are not in normal course of business of stock-brokering. Thus, by engaging in business other than securities, involving any personal financial liability, the Noticee has violated the provisions of Rule 8(3)(f) of SCRR.

12. The Noticee is a repeat offender. For the inspection conducted in the financial year 2018-19, the Exchange (a) issued a warning for the violation related to non-settlement of clients’ accounts; (b) direction to put in place an appropriate system for recording the order instructions of the clients. Further, for the inspection conducted in the financial year 2019-20, the Exchange (a) imposed a monetary penalty of Rs.1,60,000/- for the violation related to non-settlement of clients' accounts, non-issuance of statement of accounts and non-reconciliation of clients’ securities; (b) issued a warning for the violations related to incorrect data submitted towards weekly monitoring of clients’ funds and weekly holding statement; (c) direction to issue show-cause notice for non-maintenance of pre-order confirmation for orders placed by the clients and non-adherence to the directions of the erstwhile ICMA.

13. The Noticee has failed to comply with the directions issued by the Committee, and 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 authorised in that behalf or of any conduct, proceeding or method of business which the relevant authority in its absolute discretion deems dishonorable, disgraceful or unbecoming a trading member of the Exchange or inconsistent with just and equitable principles of trade or detrimental to the interests, good name or welfare of the Exchange or prejudicial or subversive to its objects and purposes.

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

**Misconduct**

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

(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 authorised in that behalf under the Bye Laws, Rules and Regulations of the Exchange;

(g) Failure to testify or give information: If it neglects or fails or refuses to submit to the relevant authority or to a Committee or an officer of the Exchange authorised in that behalf, such books, correspondence, documents and papers or any part thereof as may be required to be produced or to appeal and testify before or cause any of its partners, attorneys, agents, authorised representatives or employees to appear and testify before the relevant authority or such Committee or officer of the Exchange or other person authorised in that behalf;

(k) False or misleading returns: If it neglects or fails or refuses to submit or makes any false or misleading statement in its clearing forms or returns required to be submitted to the Exchange under the Bye Laws, Rules and Regulations;

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

4.5.1 **ADHERENCE TO SEBI CODE OF CONDUCT**

The Trading Member shall at all times subscribe to the Code of Conduct as prescribed by the Securities and Exchange Board of India (Stock Brokers 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.

The Noticee, by violating the provisions of Rules, Regulations, Byelaws and various circulars issued in accordance with the directions of SEBI, has failed to adhere to the Code of Conduct prescribed for Trading Members under Regulation 4.5.1 and 4.5.2 of Exchange Regulations (CM and F&O Segments) and is found to be consistently defaulting on the prescribed compliances.

15. All members acting as a securities market intermediary are expected to protect the interest of investors in the securities market in which they operate and are required to maintain high standards of integrity, promptitude, and fairness in the conduct of their business dealings. The Noticee has failed to address the concerns of the Exchange in relation to the violations raised during the inspection and forensic audit. Hence, the continuance of business by the Noticee will pose a risk to the securities market in general and specifically to investors interest.

16. The Committee noted that there is a persistent shortfall of clients’ funds self-reported by the Noticee. The Noticee has intentionally misled the clients by offering assured returns despite being aware that it is prohibited to offer assured return schemes. As there is already a shortfall of clients’ funds, there is every likelihood that the Noticee may continue to offer assured return schemes and admit more gullible and innocent investors. These assured return schemes have the potential to evolve into a disaster for the investors who have invested in the said schemes. Therefore, steps must be taken to prevent the Noticee from soliciting and collecting funds from investors and carrying on such assured return schemes. In view of the above and given the
persistent shortfall of clients’ funds self-reported by the Noticee and observed by the Exchange, it becomes necessary to take an exemplary action.

17. In view of the foregoing, the Committee is of the view that the above violations when considered in entirety together with the baneful impact of such gross misconduct on the capital market and investor confidence, extreme disciplinary action would be just and appropriate. Hence, the following decision:

DECISION

18. Accordingly, M/s. Stampede Capital Limited be expelled from the membership of the Exchange under Rules 1 and 2 of Chapter IV of NSEIL Rules with immediate effect.

19. In case if the Noticee has any open positions in the Exchange traded derivative contracts, the Noticee can close out/square off such open positions within 3 months from the date of order or at the expiry of such contracts, whichever is earlier. It is also clarified that the Noticee can settle the pay-in and pay-out obligations in respect of transactions, if any, which have taken place before the date of this order.

20. The proceedings of the MCSGFC meeting held on June 15, 2021, was through video conferencing. At this stage, it is not possible to sign a copy of this order, nor the Exchange can issue a certified copy of the order. Therefore, an electronic copy of this order sent from the Exchange’s email id shall be treated as a signed copy for all purposes.

Sd/- Mona Bhide
Chairperson

Sd/- K. Narasimha Murthy
Committee Member

Sd/- Anuradha Rao
Committee Member

Sd/- Vikram Limaye
Committee Member

Sd/- Ranganayakulu Jagarlamudi
Committee Member

Date: July 14, 2021