

**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 – 400051  
held on February 18, 2022**

**In the matter of Trading Member M/s. Artha Vrddhi Securities Limited**

**CORAM:**

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

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**BACKGROUND**

1. **M/s. Artha Vrddhi Securities Limited ("Artha Vrddhi ")** is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Market ("**CM**") segment since January 1995, Futures & Options ("**F&O**") segment since June 2003 and Currency and Futures Segment ("**CF**") since June 2012. Artha Vrddhi is disabled for trading in all segments with effect from December 10, 2021, on account of insufficient deposits post-appropriation of deposits towards the admissible investor claims.

2. **ISSUES BEFORE COMMITTEE**

2.1. Complaints against Artha Vrddhi and the actions taken by the Exchange

- a. The Exchange registered a complaint received from one of the clients of Artha Vrddhi, viz. Bluesea International for unauthorised trades amounting to Rs.1.47 crores as of August 4, 2021. Thereafter, the Exchange registered 3 more complaints (2 on September 13, 2021, and 1 on October 7, 2021) against Artha Vrddhi for unauthorized trades and non-receipt of funds amounting to Rs.2.84 crores. The details of the investor complaints are as per Table 1 given below:

**Table 1 – Details of Investor Complaints**

Sr. No.	Client Name	Registration Date	Claim Amount (Rs)
1	Blueseas International	4-Aug-21	14,709,150
2	Manish Indukumar Shah HUF	13-Sep-21	10,121,750
3	Manish Indukumar Shah	13-Sep-21	17,381,599
4	Nisha Jitendra Gupta	7-Oct-21	902,022

- b. The Exchange referred the complaints to Grievance Redressal Committee ("GRC"). The GRC, vide its orders, admitted the investor claims. The details of the admissible claims are as per Table 2 given below:

**Table 2 – Details of Admissible Claims**

Sr. No	Date of GRC Order	Investor Name	Admissible Claim (Rs)
1	10-Nov-21	Blueseas International	1,54,24,446
2	24-Nov-21	Manish Indukumar Shah HUF	33,43,554
3	24-Nov-21	Manish Indukumar Shah	26,94,726
4	24-Nov-21	Nisha Jitendra Gupta	3,06,208

- c. Artha Vrddhi conveyed its intention to file an arbitration against order dated November 10, 2021, passed by GRC in favour of Blueseas International on November 11, 2021 ("GRC order dated November 10, 2021"). However, subsequently Artha Vrddhi withdrew its intention to file the arbitration on November 27, 2021. The Exchange, vide email dated November 16, 2021, requested Artha Vrddhi to deposit the admissible claim amount of Rs.1.54 crores in the Exchange dues account by November 18, 2021. The Exchange further informed Artha Vrddhi that in the event of non-availability of the said amount in the Exchange dues account, the said amount shall be appropriated from the deposits available with the Exchange which may result in withdrawal of its trading rights.
- d. Artha Vrddhi did not deposit the admissible claim amount despite reminder emails dated November 18, 2021, November 26, 2021, November 29, 2021, and December 1, 2021. Therefore, the Exchange vide email dated December 9, 2021, informed Artha Vrddhi that its trading terminals will be de-activated from the next day, viz. December 10, 2021.

- e. As Artha Vrddhi failed to deposit the admissible claim amount by December 9, 2021, the Exchange appropriated Rs.57.50 lakhs towards the said admissible claim and the trading terminals were disabled in all segments w.e.f. December 10, 2021, on account of insufficient deposits available with the Exchange.
- f. The other complaints were made admissible in favour of the investors for an amount of Rs.63,44,488/- in the GRC as indicated in Table 2. The said admissible amount was also not deposited by Artha Vrddhi and the Exchange did not have sufficient funds which could be appropriated towards the said admissible amount.
- g. Artha Vrddhi did not give its consent and authority to appropriate the deposit of Rs.15 lakhs available with NSE Clearing Ltd. towards the GRC orders despite multiple requests.
- h. The Exchange received further 4 complaints against Artha Vrddhi amounting to Rs.46.83 lakhs. The details are as per Table 3 given below:

**Table 3 – Details of Investor Complaints**

Investor Name	Registration Date	Claim Amount (Rs)
Jitendra Kundanlal Gupta	27-Dec-21	43,64,860.74
Anmol Jain	13-Jan-22	48,317.00
Anju Jain	13-Jan-22	15,734.75
Vandana Kalpesh Mistry	27-Jan-22	2,54,000.00

- i. Out of these 4 complaints, 2 complaints having claim value amounting to Rs. 64,051.75 have been settled by Artha Vrddhi. Further balance 2 complaints are pending to be resolved.
- j. As of February 2, 2022, the total amount involved in the 7 complaints filed against Artha Vrddhi is Rs.2.07 crores, out of which 1 complaint was subsequently closed on February 07, 2022. Artha Vrddhi is required to bring in an amount of Rs. 2.06 crores to honour 4 GRC orders and redress balance 2 complaints.
- k. Since funds available with the Exchange were insufficient to meet the obligation of Artha Vrddhi towards GRC orders and Artha Vrddhi also failed to provide funds to pay off all the complainants despite several follow-ups, the Exchange invoked the provisions of SEBI circular dated July 1, 2020, on Standard Operating Procedure in case of Trading Member / Clearing Member leading to default on February 2, 2022.

- I. The Exchange vide email dated February 03, 2022, informed Artha Vrddhi that the Exchange has initiated necessary actions as per SEBI Circular dated July 01, 2020, regarding Standard Operating Procedure in cases of Trading Member / Clearing Member leading to default.

## 2.2. Matter No. 2: Matter related to Inspection

- a. Artha Vrddhi received 8 investor complaints against Artha Vrddhi since April 2020, out of which 5 investor complaints pertain to unauthorized trades involving Rs.4.46 crores.
- b. In view of the investor complaints, the Exchange initiated limited purpose inspection of the books of accounts and records of Artha Vrddhi from October 2021 to December 2021.
- c. Post-inspection, the Exchange issued a show-cause notice dated January 5, 2022 ("**SCN**"), to Artha Vrddhi for the observed non-compliances. Artha Vrddhi, vide emails dated February 11, 2022, and February 17, 2022, responded to the said SCN.

## 3. INSPECTION OBSERVATIONS

The inspection observations, pertaining to Matter No. 2, for which the SCN was issued by the Exchange are as under:

### 3.1. Misuse of clients' funds

The Exchange verified the data submitted by Artha Vrddhi under the Enhanced Supervision of Stockbrokers as of December 17, 2021, vis-a-vis the trial balance, client ledgers, bank statements, and records of the Exchange/Clearing Corporation. Upon verification, the Exchange observed that Artha Vrddhi used the funds of credit balance clients for meeting the settlement obligations of debit balance clients or own purpose to the extent of Rs.1.49 crores as of December 17, 2021, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers.

### 3.2 Shortfall in net worth

The Exchange verified the net worth certificates submitted by Artha Vrddhi, certifying the net worth of Rs.1.05 crores and Rs.1.09 crores vis-à-vis the trial balance and balance sheet as of March 31, 2021, and September 30, 2021, respectively. Upon verification, the Exchange observed that Artha Vrddhi failed to deduct the non-allowable assets, viz. doubtful debts and advances, while computing the net worth. After considering the doubtful debts and advances, the net worth of Artha Vrddhi stood revised at (-ve) Rs.1.67 crores and (-ve) Rs.1.48 crores as of March 31, 2021, and September 30, 2021,

respectively, which are below the minimum net worth prescribed for the Trading Members by the Exchange.

### 3.3 **Non-settlement of clients' funds and securities**

The Exchange verified the settlement declaration, register of securities, clients' ledgers, trial balance, and Exchange's records as of October 8, 2021. Upon verification, the Exchange observed that Artha Vrddhi failed to settle the clients' funds and securities as under:

- a. Active Clients - 2 instances of 1 client involving Rs. 42.67 lakhs out of 48 instances of 8 clients selected for sample scrutiny.
- b. Inactive clients - 157 out of 5,647 clients involving Rs.5.29 lakhs.

### 3.4 **Non reconciliation of securities**

The Exchange verified the securities recorded in the register of securities vis-a-vis the securities available in the beneficiary accounts maintained by Artha Vrddhi as of November 6, 2021. Upon verification, the Exchange observed that Artha Vrddhi had not reconciled the securities in 35 scrips involving Rs.26.22 lakhs.

### 3.5 **Improper maintenance of books of accounts. viz. client ledgers**

The Exchange verified the clients' ledger submitted by Artha Vrddhi . Upon verification, the Exchange observed mismatches in clients' ledger balances in the case of 9 out of 32 clients selected for sample scrutiny involving Rs.17.31 lakhs.

### 3.6 **Non maintenance of appropriate evidence regarding orders placed by the clients**

The Exchange verified the order placement mechanism maintained by Artha Vrddhi at its back office. Upon verification, the Exchange observed that Artha Vrddhi had not maintained appropriate evidence regarding the orders placed by its clients on the Exchange in all the 8 instances of 3 clients selected for sample scrutiny.

### 3.7 **Non-maintenance of client registration documents containing all the prescribed mandatory documents**

The Exchange verified the client registration documents. Upon verification, the Exchange observed that Artha Vrddhi had not maintained client registration documents containing all the prescribed mandatory documents in the case of 2 out of 8 clients selected for sample scrutiny.

#### 4. **PRESENT PROCEEDINGS BEFORE MCSGFC**

The Exchange, vide email dated February 11, 2022, granted Artha Vrddhi an opportunity for a personal hearing before the Committee in its meeting held on February 18, 2022. Mr. Anurag Shukla – Designated Director, Mr. J. J. Bhatt, Mrs. Rinku Valanju and Mr. Pratham Masurekar – Authorized representatives, on behalf of Artha Vrddhi appeared for the personal hearing and made the following oral submissions:

- 4.1. There was no misutilization of clients' funds since the value of "G" was positive to the tune of Rs.11.38 lakhs under the Enhanced Supervision of Stockbroker as of December 17, 2021. The shortfall of clients' funds to the extent of Rs.1.48 crores was on account of the recovery of investors' claim amounting to Rs.1.60 crores. Hence, the same cannot be attributed as misutilization of clients' funds.
- 4.2. Artha Vrddhi agreed to file its representation to the trigger of SEBI SOP circular.
- 4.3. Artha Vrddhi requested a period of 45 days to recoup the shortfall of clients' funds.
- 4.4. The collaterals lying with the Clearing Member i.e., Globe Capital can also be utilized by the Exchange to pay off the complainants.

#### 5. **MCSGFC OBSERVATIONS AND FINDINGS**

- 5.1. The Committee noted that an amount of Rs.1.60 crores was not deposited towards 4 GRC orders passed against Artha Vrddhi as of February 11, 2022.
- 5.2. Since funds available with the Exchange were insufficient to meet the obligation of Artha Vrddhi towards GRC orders and it also failed to provide funds to pay off all the complainants despite several follow-ups, the Exchange invoked the provisions of SEBI circular dated July 1, 2020, on Standard Operating Procedure in case of Trading Member / Clearing Member leading to default on February 2, 2022.:

4. *On analysis of early warning signals or any of the following triggers, if the SE / CC is of the view that the TM / CM is likely to default in the repayment of funds / securities to its clients and / or fail to meet the settlement obligations to CM / CC, where:*

- a) *There is shortage of funds / securities payable to the clients by Rs. 10 crore (SE may have their own criteria) and / or*

- b) *TM / CM has failed to meet the settlement obligations to CM / CC and / or*
- c) *There is sudden increase in the number of investor's complaints against the TM / CM for non-payment of funds and / or transfer of securities,*

*the following actions shall be taken by Initiating Stock Exchange (ISE) / SEs / CCs and Depositories as per the timeline given below:*

4.4 ISE shall issue a notice / circular informing the disablement of the TM in all segments.

- 5.3. Artha Vrddhi was unable to settle the investor claims on account of GRC orders passed in favour of the Investors. Apparently, Artha Vrddhi withdrew its intention to file arbitration. The said admissible claim against the GRC order dated November 10, 2021, was partially appropriated from the deposits of Artha Vrddhi maintained with the Exchange which resulted in the disablement of the trading terminals of Artha Vrddhi on December 10, 2021.
- 5.4. In terms of the SEBI SOP circular, as mentioned above, Artha Vrddhi is liable to be disabled in all segments. The Committee noted that Artha Vrddhi is already disabled in all segments with effect from December 10, 2021, on account of insufficient deposits due to appropriation of deposits towards the admissible investor claims.
- 5.5. Artha Vrddhi is charged with the violations of misuse of clients' funds, shortfall in net worth, non-settlement of clients' funds and securities, non-reconciliation of securities, improper maintenance of books of accounts viz. client ledgers, non-maintenance of appropriate evidence regarding orders placed by the clients and non-maintenance of client registration documents containing all the prescribed mandatory documents.
- 5.6. Artha Vrddhi used the funds of credit balance clients for meeting the settlement obligations of debit balance clients or own purpose to the extent of Rs.1.49 crores as of December 17, 2021, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers. Artha Vrddhi has therefore acted in violation of the following NSEIL Rules/Byelaws/Regulations and NSE circulars:

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

*The funds available in the client bank accounts of the stockbroker together with balances available with its clearing member and with the clearing corporation should not be less than the funds payable to the client at all times."*

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

*Principle*

*The total available funds, i.e., cash and cash equivalents with the stockbroker and the Clearing Corporation/Clearing Member should always be equal to or greater than client's funds as per ledger balance.*

- c. Regulation 4.5.3 (e) of the NSEIL Regulations (F&O and CM Segments)

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

- 5.7. Artha Vrddhi failed to consider the non-allowable assets, viz. doubtful debts and advances while computing the net worth. After considering the doubtful debts and advances, the net worth of Artha Vrddhi stood revised at (-ve) Rs.1.67 crores and (-ve) Rs.1.48 crores as of March 31, 2021, and September 30, 2021, respectively, which are below the minimum net worth prescribed for the Trading Members by the Exchange. Artha Vrddhi has therefore acted in violation of the following NSEIL Rule:

- a. Rule 33 under Chapter III of the NSEIL Rules

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

- 5.8. Artha Vrddhi has failed to settle the claims of the clients as per the GRC orders passed in favour of the clients.
- 5.9. The Committee noted that Artha Vrddhi filed an appeal before the Hon'ble Securities Appellate Tribunal, Mumbai and a writ petition before the Hon'ble High Court, Bombay. The appeal and writ petition are pending admission.

### DECISION

6. The Committee, therefore, in the interest of market and for protection of the investors, passes the following interim directions:
- The trading terminals of Artha Vrddhi which currently stands disabled shall continue to remain disabled in terms of the Standard Operating Procedure in cases of Trading Member / Clearing Member leading to default specified in SEBI Circular dated July 1, 2020, from the date of the meeting, i.e February 18, 2022.
  - Artha Vrddhi is granted 45 days as requested from the date of the order to recoup the shortfall of client funds and shortfall in net worth to the satisfaction of the Exchange.
  - As requested, Artha Vrddhi is also granted an opportunity to file its representation within 15 days from the date of the order for the action initiated under SEBI Circular dated July 01, 2020, for Standard Operating Procedure in cases of Trading Member / Clearing Member leading to default.
7. The proceedings of the MCSGFC meeting were held on February 18, 2022, through video conferencing. At this stage, it is not possible to sign a copy of this order, nor can the Exchange 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: February 28, 2022