

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTION 12(3) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992
READ WITH REGULATION 27 OF SECURITIES AND EXCHANGE BOARD OF INDIA
(INTERMEDIARIES) REGULATIONS, 2008.

IN RESPECT OF

NOTICEE	SEBI REGISTRATION NO.
KARVY STOCK BROKING LTD	INZ000172733

IN THE MATTER OF KARVY STOCK BROKING LTD.

BACKGROUND

1. **Karvy Stock Broking Ltd. (“KSBL/ Noticee”)** was a registered member of the National Stock Exchange of India Ltd. (“**NSE**”) and BSE Ltd. (“**BSE**”) with SEBI Registration No. **INZ000172733**. KSBL is also a SEBI registered Depository Participant (“**DP**”), having registration number IN-DP-CDSL-175-2015 and was a DP of NSDL and CDSL.
2. SEBI had received a preliminary report (“**NSE-IR**”) dated November 22, 2019, from NSE, containing its observations of the inspection of KSBL. It was *inter alia* observed in the NSE-IR that KSBL was raising funds by pledging client securities and diverting the funds so raised to related entities. Based on the observations made in the NSE-IR, SEBI, by way of an *Ex Parte-Ad-Interim Order* No. WTM/AB/SEBI/MIRSD/HO/35/2019 dated November 22, 2019 (“**Interim Order**”), pending completion of forensic audit initiated by NSE, issued the following directions:—
 - “i. *KSBL is prohibited from taking new clients in respect of its stock broking activities;*

- (ii) *The Depositories i.e. NSDL and CDSL, in order to prevent further misuse of clients' securities by KSBL, are hereby directed not to act upon any instruction given by KSBL in pursuance of power of attorney given to KSBL by its clients, with immediate effect;*
 - (iii) *The Depositories shall monitor the movement of securities into and from the DP account of clients of KSBL as DP to ensure that clients' operations are not affected;*
 - (iv) *The Depositories shall not allow transfer of securities from DP account no. 11458979, named KARVY STOCK BROKING LTD (BSE) with immediate effect. The transfer of securities from DP account no. 11458979, named KARVY STOCK BROKING LTD (BSE) shall be permitted only to the respective beneficial owner who has paid in full against these securities, under supervision of NSE;”*
3. Thereafter, vide an Order No. WTM/AB/SEBI/MIRSD/HO/17/2020 dated November 24, 2020 (“**Confirmatory Order**”), the directions issued vide the Interim Order were confirmed against the Noticee.
4. Just prior to the passing of the Confirmatory Order, NSE submitted a Forensic Audit Report (“**FAR**”) dated January 9, 2020, along with its observations, to SEBI on November 23, 2020. The period covered under the FAR was from April 1, 2016 to October 19, 2019. The major findings of the FAR are listed below:–
- (a) Non–segregation of funds and securities of clients;
 - (b) Misappropriation of clients' securities and diversion of proceeds to Group Companies;
 - (c) Misreporting/non–reporting of data under enhanced supervision to NSE;
 - (d) Non–reporting of the DP account no. IN300394–11458979, named KARVY STOCK BROKING LTD–BSE to exchanges;
 - (e) Pledging of credit clients' securities with Bank/ NBFCs;
 - (f) Funding to clients having debit balances by providing further exposure; and
 - (g) Non–settlement of funds and securities of the clients.

5. Based on the aforementioned *prima facie* findings in the FAR and SEBI's own investigation, a Show Cause Notice dated January 29, 2021 ("**SCN**"), was issued to the Noticee *inter alia* alleging that it had mis-utilised clients' funds and securities. Subsequently, a Final Order in the matter was passed on April 28, 2023, wherein it was held that the charges alleged against the Noticee in the SCN stood established.
6. Simultaneously with the above mentioned proceedings, SEBI had initiated enquiry proceedings against the Noticee under Chapter V of the SEBI (Intermediaries) Regulations, 2008 ("**Intermediaries Regulations**"). Accordingly, a Designated Authority ("**DA**") was appointed to enquire into whether the alleged violations by the Noticee warranted suspension or cancellation of the Certificate of Registration granted by SEBI or any other action provided in Chapter V of the Intermediaries Regulation. On completion of the proceedings, the DA submitted a report dated April 29, 2022 ("**DA Report**") recommending that the Certificate of Registration granted to the Noticee be cancelled.
7. Pursuant to this, a post enquiry SCN ("**P-SCN**") dated May 27, 2022, was issued to the Noticee, under Regulation 27(1) of the Intermediaries Regulations, to show cause as to why action, as recommended by the DA or any other action as considered appropriate by the Designated Member ("**DM**") should not be taken against the Noticee. A copy of the DA Report was also forwarded along with the P-SCN, and the Noticee was advised to file its reply, if any, within 21 days from the date of receipt of the said SCN.
8. The P-SCN was served on the Noticee at the address available on record with SEBI. The Noticee, however, did not submit any reply to the SCN. Subsequently, the Noticee was provided with an opportunity of personal hearing on August 23, 2022, which was later rescheduled to November 4, 2022, by SEBI, on account of administrative exigencies. The Noticee, in reply, vide an e-mail dated November 2, 2022, sought an adjournment of the hearing and additional time for submitting its reply to the P-SCN, primarily citing the ill health

of its Managing Director (“MD”), Mr. C Parthasarathy. The request made on behalf of the Noticee was accepted, and a fresh date of hearing was granted on November 22, 2022. The Noticee, however, again sought an adjournment, citing health issues faced by its MD. Considering the same, a fresh date of hearing was granted to the Noticee on December 6, 2022. In response, the Noticee vide an e-mail dated December 6, 2022, once again sought an adjournment. Vide this reply, in addition to citing the ill health of its MD, the Noticee also stated that it was in the process of changing its legal counsel and sought an opportunity to inspect the documents relied upon by SEBI in the P–SCN. Accordingly, SEBI granted the Noticee an opportunity to inspect the documents on December 20, 2022. The Noticee vide an e-mail dated December 21, 2022, stated that it was unable to undertake the inspection on the date granted by SEBI on account of unavailability of its counsel due to the ongoing court holidays. Accordingly, the Noticee requested that a new date after January 15, 2023, be granted for undertaking the inspection. In response, SEBI informed the Noticee that a new date for inspecting the documents is being provided on February 6, 2023. The Noticee was also granted an opportunity of personal hearing on February 14, 2023. I, however, note from the records that the Noticee failed to undertake the inspection and also did not appear for the hearing on the scheduled date.

9. I note that in these proceedings, the Noticee has neither provided a reply to the allegations made in the P–SCN nor availed the opportunity of hearing granted to it. I note that sufficient opportunities were provided to the Noticee to reply to the P–SCN and also to appear for a hearing. Having regard to the aforesaid, I am of the view that the principles of natural justice have been duly followed in the matter. In such circumstances, the allegations in the P–SCN against the Noticee are taken up for consideration, on the basis of the material available on record.

CONSIDERATION

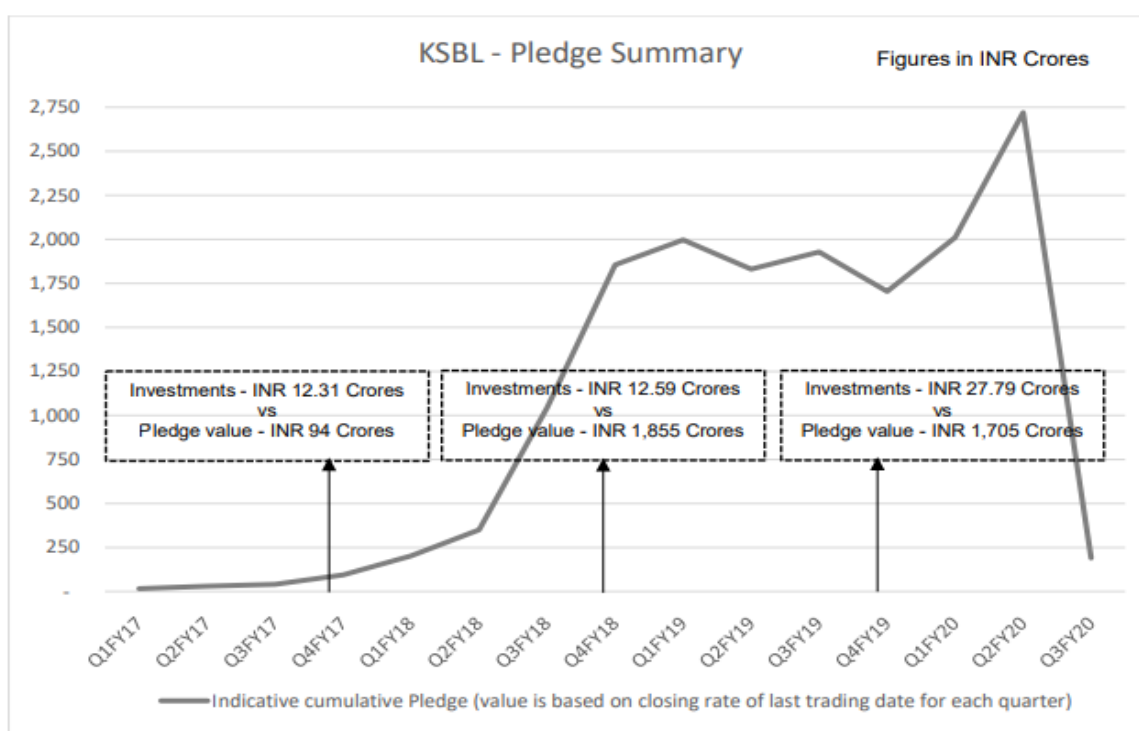
10. I have considered the FAR, the DA Report, the P–SCN issued to the Noticee and other material available on record. I shall now proceed to deal with the violations alleged in the P–SCN *in seriatim*.

FUNDS RAISED BY PLEDGING CLIENT SECURITIES

11. It is noted from the records that in September 2016, KSBL had an outstanding LAS facility of Rs. 789.41 Crore, and its total borrowings amounted to Rs. 1,051.36 Crore. The borrowings of KSBL further increased to Rs. 2,032.67 Crore as of September 30, 2019. I note from the FAR that the treasury team of KSBL regularly shared the monthly borrowings obtained through different credit facilities with the Chief Financial Officer (“CFO”) and the operational team of the Noticee. Further, the list of securities that were identified for pledging in order to obtain Loans against Securities (“LAS”) was also shared. I note that forensic audit had undertaken a sample fund trail exercise to determine how the money borrowed through LAS facilities, where securities of clients were pledged, was utilised and it was observed that in the sample 25 instances that were analysed, an amount of Rs. 257.38 Crore was transferred to Karvy Realty India Ltd. (“KRIL”). A few of the said instances are given in the Table below:

From					To				
Type	Account Number	Transaction date	Credit	Balance	Type	Account Number	Transaction date	Debit	Balance
LAS	BAJAJ FINANCE -21877416	29-07-2016	3.99		Own	00210140000014	29-07-2016	3.99	4.06
Own	00210140000014	29-07-2016	1.50	2.56	KRIL	210340003682	29-07-2016	1.50	
LAS	BAJAJ FINANCE -39825410-	01-12-2017	25.00		Own	00210140000014	01-12-2017	25.00	33.43
Own	00210140000014	01-12-2017	23.00	10.43	KRIL	210340003682	01-12-2017	23.00	
LAS	000805005109	03-04-2019	25.00		Own	000405034104	03-04-2019	25.00	-251.46
Own	000405034104	03-04-2019	5.18	-256.64	Own	000805005109	03-04-2019	5.18	40.18
Own	000805005109	03-04-2019	25.00	15.18	Own	00210140000014	03-04-2019	25.00	30.15
Own	00210140000014	03-04-2019	23.00	7.15	KRIL	210340003682	03-04-2019	23.00	
LAS	210130000134	02-04-2019	40.00		Own	210140000014	02-04-2019	40.00	49.56
Own	210140000014	02-04-2019	15.60	33.96	KRIL	210340003682	02-04-2019	15.60	
Own	210140000014	02-04-2019	16.00	17.96	KRIL	210340003682	02-04-2019	16.00	
Own	210140000014	02-04-2019	14.00	3.96	KRIL	210340003682	02-04-2019	14.00	

12. It is also noted that there was a wide variance between the value of securities pledged by KSBL with banks/ NBFCs between April 1, 2016 and December 17, 2019, and the investments held by it, as disclosed in its audited financial statements, during the same period. The details of the same are given in the chart below:



13. It can be noted from the above that there was a significant rise in pledging, starting from Rs. 202 Crore in the first quarter of the financial year 2018 (QE June 2017) and reaching Rs. 1,855 Crore in the fourth quarter of the same financial year (QE March 2018). The value of pledged securities remained within the range of Rs. 1,800 to Rs. 2,000 Crore until the first quarter of the financial year 2020 (QE June 2019). Subsequently, it increased to approximately Rs. 2,700 Crore by the second quarter of the financial year 2020 (QE September 2019).

14. I note from the FAR that securities of clients who had no negative balance (i.e., zero or credit balances) were also pledged by the Noticee. These securities, I note, were transferred to KSBL margin/beneficiary accounts without obtaining consent from the clients. Furthermore, KSBL also did not follow the stock lending and borrowing mechanism to borrow stocks from clients. The findings in the FAR in this regard are given in the Table below:

TABLE 1		
NO. OF DAYS SINCE LAST TRADE DATE	NO. OF CLIENTS HAVING CREDIT BALANCE AS ON SEPTEMBER 5, 2019	VALUE OF SECURITIES PLEDGED (RS. IN CRORE)
<=30	35,532	480
31 TO <=90	24,138	248
91 TO <=180	13,113	94
181 TO <=360	10,254	102
361 TO <=720	3,001	60
> 720	294	30
TOTAL	86,332	1,014

15. It is important to note that through a Circular No. MRD/DOP/SE/Cir-11/2008 dated April 17, 2008 (“**Circular dated April 17, 2008**”), SEBI had specified that client collateral/ securities should only be used to meet the client’s margin requirements or pay-in obligations. Additionally, in Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 (“**Circular dated June 20, 2019**”), SEBI reiterated that client securities received as collateral should only be utilised to fulfil the respective client’s margin requirement by depositing them with stock exchanges, clearing corporations, or clearing houses. Further, vide the Circular dated June 20, 2019, SEBI mandated that trading members/ clearing members are prohibited from pledging client securities held in “*client collateral account*,” “*client margin trading securities account*,” and “*client unpaid securities account*” to banks/ NBFCs for raising funds, even with client authorisation, after September 30, 2019. This restriction is in accordance with Rules 8(1)(f) and 8(3)(f) of the Securities Contracts (Regulation) Rules, 1957, as it prohibits fund-based activities by trading members/ clearing members.

16. It is, however, observed that KSBL had pledged client securities amounting to Rs. 2,700 Crore beyond September 30, 2019, which is a violation of the provisions stated in Circular dated June 20, 2019. Further KSBL, by pledging the securities of the clients in the manner described above and continuing to do so even after a specific direction by SEBI prohibiting such pledging of securities of clients has violated the Circular dated June 20, 2019 read with Circular bearing no. SEBI/HG/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019, and Circular dated April 17, 2008.

NON-SETTLEMENT OF CLIENTS' FUNDS AND SECURITIES BY KSBL

17. It is noted from the records that as on November 22, 2019, KSBL had not settled funds to the extent of Rs. 527.18 Crore and securities worth Rs. 2,862.05 Crore, which were returnable to its clients. The details of such unsettled funds and securities are as follows:

TABLE 2			
PARTICULARS	NUMBER OF CLIENTS	VALUE OF FUNDS (IN RS. AND CRORE)	VALUE OF SECURITIES (IN RS. AND CRORE)
CLIENTS WITH ONLY SECURITIES	47,502	—	317.81
CLIENTS WITH ONLY FUNDS	1,37,232	217.16	—
CLIENTS WITH BOTH FUNDS & SECURITIES	1,34,099	310.02	2,544.24
TOTAL	3,18,833	527.18	2,862.05

18. As per the SEBI Circular bearing No. MIRSD/SE/Cir-19/2009 and dated December 3, 2009 ("**Circular dated December 3, 2009**"), 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, in case of running accounts. In all other cases, the funds and securities have to be settled within 24 hours of receiving the payout. I note from the records that amounts provided in Table 2 were not settled by the Noticee within the time period provided under the SEBI circular dated December 3, 2009, and therefore, I hold that such actions of the Noticee were in contravention of the provisions of the said Circular.

TRANSFER OF FUNDS TO RELATED ENTITIES

19. It is noted from the audited financials of KSBL as of March 31, 2019, and the unaudited financials as of September 30, 2019, that the loans taken from banks/ NBFCs by KSBL had increased from Rs. 500.77 Crore to Rs. 2,032.67 Crore during this period. Details of the borrowings of the KSBL during this period are given in the Table below:

TABLE 3		
	FIGURES IN RS. AND CRORE	
PARTICULARS	MARCH 31, 2019	SEPTEMBER 30, 2019
LOAN AGAINST SECURITIES	26.11	786.93
OTHER BORROWINGS	474.66	1,245.74
TOTAL	500.77	2,032.67

20. It is noted that out of the additional borrowings of Rs. 1,531.90 Crore, during the period April 1, 2019 to September 30, 2019, Rs. 1,228.36 Crore was given as loan/ advances/ investments to Group Companies (Rs.428.36 Crore was given as advances for investment in subsidiaries and Rs. 800 Crore was given towards loans/ receivables from subsidiaries).
21. The FAR also records, based on an analysis of the total inflow/ outflow between KSBL and its Group Entities, that an net amount of approximately INR 1,120 Crore was transferred from KSBL to its various Group Companies from FY 2017 till October 19, 2019, details of which are given in the Table below:

TABLE 4					
	FIGURES IN RS. AND CRORE – INFLOW / (OUTFLOWS)				
GROUP COMPANY NAME	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	TOTAL
KARVY REALTY INDIA LTD.	(86.63)	(235.49)	(109.74)	(662.33)	(1,094.19)
KARVY CAPITAL LTD.	(164.80)	(70.82)	(144.69)	31.55	(348.76)
KARVY FOREX & CURRENCY PVT. LTD.	(5.67)	0.01	0.51	0.24	(4.92)
KARVY MIDDLE EAST LLC	-	(2.17)	-	-	(2.17)
KARVY INVESTMENT ADVISORY SERVICES LTD.	0.01	(0.75)	-	-	(0.74)

TABLE 4					
	FIGURES IN RS. AND CRORE – INFLOW / (OUTFLOWS)				
GROUP COMPANY NAME	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	TOTAL
KARVY INC	(0.33)	-	-	-	(0.33)
KARVY RENEWABLE ENERGY PROJECTS LTD.	-	-	(0.20)	0.01	(0.19)
KARVY ASIA PACIFIC PTE LTD.	-	(0.05)	-	-	(0.05)
KARVY INSURANCE REPOSITORY LTD.	0.01	-	0.01	0.01	0.04
KARVY INVESTOR SERVICES LTD.	(0.53)	0.63	0.46	0.34	0.89
KARVY HOLDINGS LTD.	15.82	(1.04)	22.06	(35.85)	0.98
KARVY PRIVATE WEALTH LLC DUBAI	0.19	0.60	0.20	0.01	1.00
KARVY COMTRADE LTD.	3.84	4.17	3.56	1.46	13.03
KARVY CONSULTANTS LTD.	7.90	31.67	11.48	0.27	51.31
KARVY FINANCIAL SERVICES LTD.	(25.74)	59.48	56.66	(1.33)	89.07
KARVY DATA MANAGEMENT SERVICES LTD. (KDMSL)	22.27	37.86	167.48	(54.00)	173.61
TOTAL	(233.67)	(175.90)	7.78	(719.62)	(1,121.41)

22. Further, I note that a sample fund trail exercise was undertaken by the Forensic Auditor of the bank statements of KSBL, and it was observed that there were transactions from the bank accounts earmarked as '*client bank accounts*' by KSBL to the '*own bank accounts*' of KSBL. It was also noted that such funds were, in turn transferred to the Group Companies of KSBL. A few instances of such transfer are given below:

Figures in INR Crores

From					To				
Type	Account Number	Transaction date	Credit	Balance	Type	Account Number	Transaction date	Debit	Balance
Client	210340000107	11-07-2018	12.00		Own	210140000014	11-07-2018	12.00	12.05
Own	210140000014	11-07-2018	12.00	0.06	KCAP	KARVY CAPITAL LTD	11-07-2018	12.00	
Client	210340000107	27-10-2017	100.00		Own	210140000014	27-10-2017	100.00	101.09
Own	210140000014	27-10-2017	10.00	91.09	KRIL	210340003682	27-10-2017	10.00	
Client	210340000107	24-01-2018	50.00		Own	210140000014	24-01-2018	50.00	57.06
Own	210140000014	24-01-2018	45.00	12.06	KRIL	210340003682	24-01-2018	45.00	
Client	210340000107	24-01-2018	50.00		Own	210140000014	24-01-2018	50.00	114.26
Own	210140000014	24-01-2018	13.00	101.26	KRIL	210340003682	24-01-2018	13.00	
Client	210340000107	27-03-2018	50.00		Own	210140000014	27-03-2018	50.00	50.21
Own	210140000014	27-03-2018	13.50	36.71	KRIL	210340003682	27-03-2018	13.50	
Own	210140000014	27-03-2018	12.00	24.71	KRIL	210340003682	27-03-2018	12.00	
Client	210340000107	28-12-2017	48.00		Own	210140000014	28-12-2017	48.00	48.69
Own	210140000014	28-12-2017	13.50	35.19	KRIL	210340003682	28-12-2017	13.50	
Client	210340000107	31-03-2018	45.00		Own	210140000014	31-03-2018	45.00	45.18
Own	210140000014	31-03-2018	13.00	32.18	KRIL	210340003682	31-03-2018	13.00	
Own	210140000014	31-03-2018	15.00	17.18	KRIL	210340003682	31-03-2018	15.00	

23. In view of the aforesaid observations, I hold that the Noticee, by way of transferring the funds/ securities from client accounts to other accounts/ own account, had mis-utilized the collaterals/ securities of its clients for purposes other than those mentioned in SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993 (“**Circular dated November 18, 1993**”).

NON-COOPERATION WITH THE FORENSIC AUDITOR

24. I note from the records that KSBL had failed to cooperate with the Forensic Auditor in the proper assessment of the assets and liabilities of the member towards clients. The Noticee being a SEBI registered intermediary is obligated to provide the data as sought by SEBI/ stock exchanges either by itself or through its appointed auditor. The list of pending information/ clarifications sought by the Forensic Auditor which were not provided by KSBL is provided below:

Sr. No.	Data requested	Status
1	Access to key individuals such as G Krishna Hari (CFO), Sachin Agarwal (VP - Finance and Accounts) as well as to the treasury / funds team members such as Vara Prasad.	Not provided
2	Details on loans and advances given to group companies along with the purpose / intent	Purpose of transfers to related parties not explained
3	Application of funds raised through LAS facility - whether applied towards working capital or any other purpose (with classification - E.g. Related party). It was discussed that KSBL would provide a quarter-on-quarter application of funds raised as per the agreed format.	Not provided
4	Clarification on entries passed in Back Office Control Account other than Karvy Realty India Limited entries and the nature of this account	Not provided
5	Related party ledgers matching with the disclosure in Financials	Not provided

Sr. No.	Data requested	Status
6	Confirmation of amount transferred to Karvy Realty India Limited from FY17 to FY20 (amounting to INR 958.80 Crores). Also, confirmation on classification of KRIL transactions in Other Creditors.	Not provided
7	Financial records of group companies (SAP / Tally data)	Data not provided for KDMSL and its respective group companies
8	Board resolutions as well as minutes for the loans / facilities availed by KSBL	Not provided
9	Email sent by Karvy team to Banks / NBFCs where it has been mentioned that the pledged shares for LAS facility are client securities	Not provided
10	Confirmation from banks / NBFCs on the following: - The list of demat accounts from which shares have been pledged by KSBL - Disbursements / drawdowns towards LAS facility from 1 July 2019 till date (i.e. 3 December 2019)	No response from banks / NBFCs. Except once on 5 December 2019, no further follow ups done by KSBL team
11	Confirmation from DPs for all the DP accounts held by KSBL and its group entities (using PAN)	Received from NSDL. Pending from CDSL. No further follow ups done by KSBL team.
12	Breakup of Debtors as on 30 September 2019 (of INR 666 Crores) / 30 November 2019 in SAP with the nature of debtors and ageing	Not provided
13	Details of client debtors with party-wise breakup and ageing as on 30 November 2019	Not provided
14	Month on month trial balance from January 2019 to November 2019	Not provided
15	Financials of KSBL for the last 3 years (including groupings and trial balance in Excel)	Groupings and trial balance not provided
16	Funds and securities balances of clients as on 15th and 30th of every month starting from April 2016 till November 2019. Also, pledge of securities as on that date for each of these clients	Not provided
17	Confirmation on the closing balances of clients as per Pradnya on 30 November 2019	Not provided
18	Note on activation scheme of clients from April 2019 onwards	Updated note not provided on letter. Additionally, clarifications sought on the note not provided.
19	Note on trading done by Rajiv in the 9 undisclosed group companies along with the P/L position i.e. trading profits / losses incurred in relation to the 9 accounts. Also, provide the clients fund position (payable / receivable) in each case.	Note not provided on Letter-head as requested.

Sr. No.	Data requested	Status
20	Reconciliation of shares claimed to have been erroneously transferred to 9 companies vs recovered vs purchases vs pending. Also, details on shares sold, invoked, etc.	Not provided
21	Details of any other parties other than these 9 from where trading was done.	Not provided
22	Final root cause analysis as against the interim report submitted to exchange in August 2019	Not provided
23	Stock lending scheme and consent for the same. Payout details, quantities, dates when transferred, etc.	Not provided
24	Note on LAS as well as other facilities used by KSBL from banks / NBFCs such as HDFC and ICICI where the underlying were pledged shares	Not provided
25	Details of Inter Corporate Deposits taken by KSBL from parties other than related parties	Not provided
26	IT asset allocation register	Incomplete data provided. Does not contain details of any laptop / desktop issued to key personnel like C Parthasarathy, Rajiv Ranjan Singh, etc.
27	Weekly cash flow statements from 1 August 2019 till 22 November 2019 as well as for each week going forward	Not provided
28	Balance sheets of KSBL and all other group entities as on 19 November 2019	Not provided
29	List of all the borrowings by KSBL and all other group entities with details of collaterals and defaults as on 19 November 2019	Not provided
30	List of bank account names and numbers of all the Karvy Group companies (including subsidiaries and associates)	Provided on 14 December 2019. Delay of more than 1 month for historical and ready information.
31	Weekly plan on debtors' recovery	Not provided
32	Workings of loans / borrowings maintained by KSBL finance team	Not provided
33	Pledgee statements (transactional level details) of loans / borrowings taken by KSBL from 1 April 2016 to 30 September 2019	Not provided
34	Bank statements for the period April 2016 to September 2019	7 bank account details not provided as on date basis email on 21 December 2019. Additionally, for the missing / incorrect bank statement balances noted, no specific reasons provided.
35	Missing transactions / incorrect bank statement balances	

Sr. No.	Data requested	Status
36	Bit Locker decryption key to access Mahesh V's laptop	Not provided
37	Note on recovery of KSBL debtors of INR 46.5 Crores with its corresponding use	Not provided
38	Classification of Loans / receivable from Subsidiaries of INR 800 Crores in the SAP ledgers of KSBL	Not provided
39	List of all the duplicate client codes for different bank accounts under different segments maintained in Pradnya	Not provided
40	Client-wise ISIN wise DP holding statements from your back-office software as on the last trading day of every month starting from 1 April 2016 to 30 September 2019	Not provided
41	Confirmation of securities pledged in relation to clients with credit balance - Annexure B	Not provided
42	Reasons for mismatch in holding as per class Vs DP holding as on 10-Jun-2019	Not provided
43	Access to internal audit team / internal auditors	Not provided
44	Client ledger balances on each day based on which pledging was done for these clients	Not provided
45	Confirmation on sending of the statements of pledge / unpledged which are required to be sent out to clients as and when their securities are pledged / unpledged as per the format prescribed under point 2.5.5 of the SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 on Enhanced Supervision of Stock Brokers/Depository Participants dated 26 September 2016 to respective clients	Not provided

25. Such conduct by the Noticee, I note, is not in compliance with the Code of Conduct specified for stock brokers under Clauses A(1), A(2), A(3), A(4) and A(5) of the Code of Conduct specified under Schedule II read with Regulation 9(f) of the SEBI(Stock Broker) Regulations, 1992.

NON-REPORTING OF BANK ACCOUNTS AND DP ACCOUNTS

26. I note from the records that KSBL had not reported six own bank accounts (stock broker-own accounts) to stock exchanges as required under the Circular dated September 26, 2016. It is also noted from the FAR that KSBL had credited funds raised by pledging client securities to these six own bank accounts. The details of these accounts are given in the Table below:

TABLE 7		
S. No.	BANK NAME	BANK ACCOUNT No.
1.	HDFC BANK LTD.	210130000134
2.	ICICI BANK LTD.	405034104
3.	INDUSIND BANK LTD.	606014011496
4.	AXIS BANK LTD.	916030054913843
5.	KOTAK MAHINDRA BANK LTD.	11210382
6.	HDFC BANK LTD.	00210140000014

27. It is also noted that KSBL had failed to furnish to the exchanges details of its DP Account No. IN300394–11458979, which was opened on December 20, 2000. The said DP account was classified as a *beneficiary client account*. Such non–furnishing of details of bank accounts and DP accounts, I hold, is in contravention of the provisions of the SEBI Circular bearing No. SEBI/HO/MIRSD/ MIRSD2/CIR//P/2016/95 and dated September 26, 2016 (“**Circular dated September 26, 2016**”).

GRANTING FURTHER EXPOSURE TO DEBIT BALANCE CLIENTS

28. I note that NSE had undertaken a sample analysis of the funding provided to KSBL's top 25 debit balance clients, and it was noted that KSBL had provided funding for 13 of the said 25 clients. The details of the funds advanced are tabulated below:

TABLE 8					
S. No.	CLIENT CODE	CLIENT NAME	HIGHEST FUNDED AMOUNT (IN Rs.)	LOWEST FUNDED AMOUNT (IN Rs.)	AVERAGE FUNDED AMOUNT (IN Rs.)
1	306615	VIJAY CHIMANDAS JHAMMANI	7,16,13,653	1,57,53,186	5,78,56,707
2	306621	NEETA VIJAY KUMAR JHAMNANI	18,30,87,604	1,90,712	5,08,19,347
3	307413	KANCHAN MANDHANA	26,90,748	18,03,428	21,84,780
4	316V0255	VINOD KUMAR PODDAR	2,19,07,577	40,20,935	1,37,14,554
5	A020002	CLASSIC WEALTH MANAGEMENT SERVICES PRIVATE LTD.	35,82,18,078	45,55,808	12,13,05,782
6	A020004	ZENITH INSURANCE SERVICES PRIVATE LTD.	38,30,47,860	6,30,41,430	23,84,45,773
7	A020005	BUOYANT INSURANCE SERVICES PRIVATE LTD.	24,22,04,594	77,41,874	7,37,75,491
8	A0200098	PELICAN WEALTH ADVISORY SERVICES PRIVATE LTD.	10,37,25,546	10,93,022	4,46,24,384
9	A020091	WIZARD INSURANCE SERVICES P LTD.	27,13,98,170	2,78,43,084	8,23,80,412
10	A45073048	NISHANT SINGH	30,57,50,586	6,05,43,452	24,70,66,683
11	A45073052	PANKAJ DOBHAL	2,35,18,028	97,41,196	1,84,27,493
12	HBH5691	VITALINK WEALTH ADVISORY SERVICES PRIVATE LTD.	34,33,18,880	9,14,317	8,69,77,560
13	KM10004549	DEVENDRA KUMAR SHARMA	9,71,84,983	49,38,901	3,56,61,690

29. I note that the Noticee, by funding the positions of these clients, has compromised its risk management procedures and contravened the provisions of the Circular dated September 26, 2016.

30. I shall now proceed to consider the directions that should be issued against the Noticee that would be commensurate with the violations established in this

Order. A stock broker plays a critical role in the securities market as it acts as an interface for retail investors and is therefore required to maintain high standards of integrity and fairness in the conduct of its business dealings and uphold the trust reposed by investors who hold their funds and securities with it. As a regulator of the capital markets, SEBI has the duty to safeguard the interest of investors and ensure that their rights are protected. I also note that the Noticee has been declared a defaulter and expelled by BSE on November 24, 2020, and by NSE on November 23, 2020. Given the above, I am inclined to accept the recommendation in the DA Report that the Certificate of Registration granted to the Noticee, be cancelled.

DIRECTIONS

31. In view of the aforesaid observations and findings, I, in exercise of the powers conferred upon me under Section 12(3) read with Section 19 of the SEBI Act, 1992 and Regulation 27 of the Intermediaries Regulations, hereby cancel the Certificate of Registration of Karvy Stock Broking Ltd. (**INZ000172733**).
32. Irrespective of the cancellation of the Certificate of Registration, the Noticee shall continue to be liable for anything done or omitted to be done as a Stock Broker and continue to be responsible for payment of outstanding fees and dues, if any, payable to SEBI.
33. This Order shall come into force with immediate effect.
34. A copy of this Order shall be served upon the Noticee and all recognised Stock Exchanges for information and necessary action.

Place: Mumbai
Date: May 31, 2023

ASHWANI BHATIA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA