

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.
ALLIED FINANCIAL SERVICES PVT. LTD.	INZ000164832

IN THE MATTER OF ALLIED FINANCIAL SERVICES PVT. LTD.

BACKGROUND

1. Allied Financial Services Pvt. Ltd. (hereinafter referred to as “**AFSPL/ Noticee**”) was a registered member of the National Stock Exchange of India Ltd. (hereinafter referred to as “**NSE**”) with registration number INZ000164832. AFSPL is also a Depository Participant of National Securities Depository Ltd. with registration number IN-DP-387-2018.
2. SEBI received an email dated February 23, 2019, from NSE, whereby NSE forwarded an interim report (hereinafter referred to as “**NSE-IR**”) containing its preliminary observations of the inspection of AFSPL. The NSE-IR also included a summary of the funds and securities available with the Noticee. Based on the observations made in the NSE-IR, SEBI, by way of an *Ex Parte-Ad-Interim Order* No. WTM/AB/SEBI/NRO/22/2019 dated February 27, 2019 (hereinafter referred to as “**Interim Order**”), pending completion of forensic audit initiated by NSE, issued the following directions:-

"a. Allied Financial Services Private Ltd., Rajeev Kumar Asopa, Lalit Agarwal, Rajendra Prasad Basia, Awanish Kumar Mishra, Jitendra Kumar Tiwari, Money Mishra Financial Services, Money Mishra Overseas Pvt. Ltd., Pankaj

Garg and Jitender Malhotra are restrained from accessing the securities market and are further prohibited from buying, selling or otherwise dealing in securities, either directly or indirectly, or being associated with the securities market in any manner whatsoever, till further directions;

b. The aforesaid Noticees shall cease and desist from undertaking any activity in the securities market, directly or indirectly, in any manner whatsoever till further directions;

3. Thereafter, vide Order No. WTM/AB/SEBI/MIRSD/NRO/06/2019-20 dated May 17, 2019 (hereinafter referred to as "**Confirmatory Order**"), the directions issued vide the Interim Order were confirmed against all the persons covered therein other than Rajeev Kumar Asopa, Lalit Agarwal and Rajendra Prasad Basia, for whom the directions stood vacated.
4. Subsequent to the passing of the Confirmatory Order, NSE submitted a forensic audit report (hereinafter referred to as "**FAR**") in the matter to SEBI on September 18, 2019. The period covered under the FAR was from April 1, 2017, to January 31, 2019. The Noticee was also declared a defaulter and expelled by NSE on November 4, 2019, for the following reasons:-
 - a) *Dealing with unregistered entities*
 - b) *Misuse of client funds*
 - c) *Shortfall in net worth*
 - d) *Non-availability of client accounts*
 - e) *Non-resolution of investor complaints*
5. Based on the *prima facie* findings in the FAR and the Inspection Report, SEBI issued a Show Cause Notice dated October 29, 2021 ("**SCN**"), *inter alia* alleging that the Noticee had misutilised clients' funds and securities. Subsequently, a Final Order in the matter was passed on November 4, 2022, wherein it was held that the charges alleged against the Noticee in the SCN stood established.
6. Simultaneously with the aforesaid proceedings, SEBI initiated enquiry proceedings against the Noticee under Chapter V of the SEBI (Intermediaries) Regulations, 2008 ("**Intermediaries Regulations**") and appointed a Designated

Authority (“DA”) 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 September 27, 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 October 14, 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 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 submitted its reply to the SCN vide an e–mail dated February 10, 2023. Subsequently, the Noticee was provided an opportunity of personal hearing on May 03, 2023, wherein Advocate Divyanshu Goyal had appeared on its behalf. The summary of the oral and written submissions made by the Noticee is given below: -
 - a. The Noticee was not provided with adequate opportunities to inspect the documents relied upon by SEBI in these proceedings.
 - b. There were grave errors and misreporting by NSE, especially with respect to funds available and payable to clients, which has led to inaccurate reporting and exaggeration with regard to the alleged non-availability of funds of ₹94.42 Crore.
 - c. Noticee submitted that securities as mentioned in Register of Securities (“ROS”) duly tally with securities in DP account.
 - d. Under the Stock Broker Regulations, the Noticee was required to settle accounts of its clients on ‘quarterly basis’ and the quarter for **September to December 2018** ended on December 31, 2018, which was when accounts were duly settled. NSE while making these observations did not consider the aforesaid position.

- e. In relation to non-maintenance of daily reconciliation statement, it is submitted that the Noticee was not aware of any circular, rules or regulations or Bye-Laws of SEBI or NSE where a reconciliation statement of reasons for transfer of funds from client account to business account is to be maintained on a daily basis.
- f. Noticee submitted that securities were transferred on the basis of DIS slip executed by different clients. The securities were provided to it by its registered clients.
- g. It was submitted that in respect of the calculation of net worth there was a mathematical error in such calculation as Net worth.
- h. Payments were made by the Noticee out of the credit balance available in the respective accounts of the clients and the Noticee had not made any assurances to clients regarding providing assured returns.
- i. It was also submitted that the Noticees replies in the 11B matter may be adopted in the present proceedings also.

CONSIDERATION

9. I have considered the FAR, the DA Report, the P–SCN issued to the Noticee and other material available on record. I note that most of the contentions made by the Noticee disputing the findings of the FAR are merely bland assertions and are not supported by any documentary evidence. I am therefore not placing any reliance on such assertions made on behalf of the Noticee. I shall now proceed to deal with the violations alleged in the P–SCN *in seriatim*.

A. NON–AVAILABILITY OF CLIENT FUNDS

10. I note from the records that as on January 31, 2019, there were client payables amounting to ₹138.78 Crore against which fund amounting to ₹44.36 Crore was available with the Noticee, in its bank account / with clearing member / clearing corporation and exchange. The Noticee had a shortage of funds amounting ₹94.42 Crore, which was payable to the clients as on January 31, 2019, the details of which are given in the table below:-

TABLE 1		
Sr. No.	PARTICULAR	AMOUNT (IN ₹ CRORE)
1.	CREDITORS PAYABLE-A	138.78
2.	DEPOSITS AVAILABLE WITH IL&FS SECURITIES SERVICES LTD (ISSL) (CLEARING MEMBER)	42.42
3.	AMOUNT AVAILABLE WITH EXCHANGE	1.10
4.	BANK BALANCE	0.86
5.	TOTAL FUNDS AVAILABLE (2+3+4)	44.36
NON-AVAILABILITY OF FUNDS (1-5)		94.42

11. Noticee, in its reply filed before me, has disputed this figure and stated that the figure of ₹94.42 Crores has been arrived at without a proper scrutiny of its records. I, however, note that other than making this bland assertion, the Noticee has not submitted any documentary records or evidence before me to support this claim. Further, the Noticee has only disputed the quantum of the shortfall of client funds. It is also pertinent to note that the Noticee in its earlier reply dated October 5, 2020, filed before SEBI has in fact admitted to diverting client funds to third parties.
12. SEBI Circulars seek to protect the interest of investors and to ensure that the monies of the clients available with a stock broker are segregated and identified separately from the own funds of the broker. This has been done to ensure that client funds are utilised only for permissible activities, as provided under the relevant circulars, and not used for meeting the liquidity needs of the broker or its other clients and to also prevent diversion of such funds. In view of the above, considering the shortfall reflected in the books and admission on the part of the Noticee that it has diverted funds to third parties, I have no hesitation in holding that AFSP has misappropriated client funds and transferred it to third parties in contravention of the provisions of securities laws and thus, violated SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993, and SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

B. NON-AVAILABILITY OF CLIENT SECURITIES

13. It is noted from the records that as on January 31, 2019, securities amounting to ₹0.34 Crore recorded in the register of securities were not available in the DP account or with Clearing Member of the Noticee. Further, securities amounting to ₹0.35 Crore, which were reflected in the DP account of AFSPL, were not found to have been recorded in the register of securities.

TABLE 2	
PARTICULARS	AMOUNT (IN ₹ CRORE)
VALUE OF SECURITIES AS PER REGISTER OF SECURITIES AS ON JANUARY 31 2019	387.09
VALUE OF SECURITIES IN BENEFICIARY ACCOUNTS	0.75
VALUE OF SECURITY WITH CLEARING MEMBER- IL&FS SECURITIES SERVICES LTD. (ISSL)	386.36
TOTAL VALUE OF SECURITIES AVAILABLE	387.11
NON-AVAILABILITY OF SECURITIES	0.34
EXCESS SECURITIES AVAILABLE IN DP	0.35

14. I note that the Noticee has not placed any documentary evidence before me to contradict the findings in the FAR and, therefore, I am constrained to record my findings on the basis of the material available on record. I note that there has been a shortfall in securities recorded in the name of the clients in the register of securities of the Noticee than what was actually reflected in the DP account/available with the clearing member of the said Noticee. In view of the same, I hold that AFSPL had misappropriated client securities and thus violated SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993, and SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

C. NON-SETTLEMENT OF FUNDS & SECURITIES OF INACTIVE CLIENTS

15. It is observed from the trial balance and register of securities as on November 30, 2018, that funds and securities worth ₹37.48 Crores of 102 inactive clients, who had not traded in the preceding three months, had not been settled. An illustrative list of some clients is provided in the table below:-

TABLE 3						
Sr. No.	CLIENT CODE	CR BALANCE AS ON NOVEMBER 30, 2018 (AMOUNT IN ₹)	DR BALANCE AS ON NOVEMBER 30, 2018 (AMOUNT IN ₹)	SECURITIES VALUE AS ON NOVEMBER 30, 2018 (AMOUNT IN ₹)	TOTAL FUNDS AND SECURITIES (AMOUNT IN ₹)	LAST TRADE DATE
1	C4597	19,81,90,046	-	-	19,81,90,046	23/AUG/2018
2	C4615	3,56,67,205	-	-	3,56,67,205	13/AUG/2018
3	C4731	94,00,000	-	-	94,00,000	NOT TRADED
4	C4711	75,71,858	-	-	75,71,858	NOT TRADED
5	C4568	10,90,495	-	47,73,176	58,63,672	14/AUG/2018
6	C4729	30,40,200	-	28,10,447	58,50,647	NOT TRADED
7	C4596	44,25,753	-	-	44,25,753	22/DEC/2017
8	C4539	35,94,821	-	-	35,94,821	5/APR/2018
9	C4654	31,36,488	-	3,25,445	34,61,934	13/AUG/2018
10	C4646	31,57,224	-	-	31,57,224	27/JUN/2018

16. I note that as per the SEBI Circular dated December 03, 2009, the actual settlement of funds and securities has to be done by the stock broker at least once in a calendar quarter or once in a month, depending on the preference of the client. However, it is noted from the table above that the Noticee has failed to periodically settle the accounts of a large number of its clients as mandated under the SEBI Circular.
17. The periodic settling of accounts is a prudential norm prescribed by SEBI in the interest of investors so that their funds are not kept unsettled by the stock broker for indefinite periods. In view of the above, I hold that the Noticee has failed to settle the funds and securities of clients and thus violated SEBI Circular No. SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009, and SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR /P/2016/95 dated September 26, 2016.

D. NON-SEGREGATION OF TRANSACTIONS BETWEEN OWN AND '*CLIENT BANK ACCOUNT*'.

18. I note from the records that the Inspection had identified 44 instances in which AFSPL had not segregated transactions between own and '*client bank account*'. It was noted that an amount of ₹19.72 Crores had been transferred from the '*client bank account*' to own bank account, and ₹3.89 Lakhs has been transferred from own to '*client bank account*', resulting in a net transfer of ₹19.68 Crores, during the inspection period, from clients' to own bank account, in contravention of the provisions of the aforementioned SEBI Circulars.
19. I note that the SEBI Circulars dated November 18, 1993 and September 26, 2016, permit the transfer of funds between '*client bank account*' and own bank account of the stock broker only for specific limited purposes provided by the said Circular. However, as stated above, it is noted that the Noticee identified that the Noticee transferred a net amount of ₹19.72 Crores from the clients' accounts to own account for extraneous reasons, which was not permitted under aforesaid Circulars issued by SEBI. Further, it is noted that the Noticee has also not maintained a daily reconciliation statement recording the reason for the transfer of funds between own and clients' bank/beneficiary accounts as required under SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
20. In view of the above, I hold that the AFSPL has not segregated own and clients' bank accounts and also has not maintained a daily reconciliation statement for funds and thus, violated SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993, and SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

E. MISUSE OF CLIENTS' FUNDS.

21. It was observed during the Inspection that the Noticee had transferred funds from the '*client bank account*' to its own bank account and thereafter mis-utilized such funds in contravention of provisions of the SEBI Circulars. I note from the records that client funds to the tune of ₹17.76 Crores, which were transferred from the '*client bank*

account' to the Noticee's bank account, were utilized for buying property, making donations, etc. The details of the same are provided below:-

- (a) AFSPL invested ₹15.92 Crore in property.
- (b) AFSPL donated ₹50 lakh each to Avanee Foundation and Serendipity Arts.
- (c) Certain payments amounting to ₹0.84 Crore have been made to an event management company.
- (d) AFSPL has also made payment for the purchase of software from Optoss Technologies amounting to ₹1.43 Crore.

22. I further note from the records that during the Forensic Audit, the proprietary (hereinafter referred to as "**PROP**") ledger balance of the Noticee for sample dates was inspected and it is observed that on all 5 sample dates client funds were used to meet the PRO obligation, amounting to ₹88.29 Crores, the details of which are given in the table below:-

TABLE 4					
DATE	PRO LOSS (A)	CLIENT LOSS (B)	NET (C=A-B)	PROP LEDGER BALANCE (D)	FUNDS OF CLIENTS USED FOR PROP OBLIGATION (E=D-A) IF D IS POSITIVE OR VALUE OF A
28-12-2017	-75434384	-142594879	-218029263	-146315552.6	75,43,43,84
31-01-2018	- 515173563	515192238	18,674.75	122464385.4	39,27,09,178
08-02-2018	- 334749368	364614943	29865575.2 5	-98028619.47	33,47,49,368
16-10-2017	-91941240	87247715	-4693525.5	54856871.55	3,70,84,368
24-11-2017	-79889035	43000491	-36888544	-79372846.04	4,30,00,491
TOTAL					88,29,77,789

23. It is further noted from the FAR that for the period April 1, 2017, to February 18, 2019, excess payments to the tune of ₹87.56 Crores were made to the following entities by AFSPL:-

TABLE 5			
Sr. No	NAME OF ENTITY	EXCESS PAYMENT (IN ₹ CRORE)	REMARKS
1.	COINTRIBE TECHNOLOGIES PVT. LTD.	22.70	RELATED PARTY OF OCL INDIA LTD / DALMIA BHARAT LTD. EXCESS AMOUNTS RECEIVED WERE TRANSFERRED TO ANTORDAYA COMMERCIAL AND HOLDINGS PVT. LTD AND GLOW HOMES TECHNOLOGIES PVT. LTD., WHICH FURTHER TRANSFERRED IT TO AFSPL
2.	VINIMAY DEVELOPERS PVT. LTD.	0.90	RELATED PARTY OF OCL INDIA LTD / DALMIA BHARAT LTD. AMOUNT RECEIVED WERE FURTHER TRANSFERRED TO ANTORDAYA COMMERCIAL AND HOLDINGS PVT. LTD, WHICH FURTHER TRANSFERRED IT TO COINTRIBE TECHNOLOGIES AND SOME OF THE FUNDS WERE UTILISED FOR THE PURCHASE OF MUTUAL FUND UNITS BY THEM.
3.	MONEY MISHRA FINANCIAL SERVICES	36.11	RELATED PARTY OF AFSPL. AMOUNTS RECEIVED BY MONEY MISHRA FINANCIAL SERVICES WERE UTILISED FOR MAKING REGULAR PAYMENTS TO REGISTERED CLIENTS AND OTHER ENTITIES.
4.	ENMAR PORTFOLIO LLP	2.42	FUNDS RECEIVED WERE FURTHER TRANSFERRED TO VARIOUS PARTIES WHO WERE ALSO REGISTERED CLIENTS OF AFSPL
5.	JJ TRADELINKS PVT. LTD	14.31	
6.	PRIMARC PROJECTS PVT. LTD.	6.00	FUNDS RECEIVED WERE TRANSFERRED TO CHARAK AYURMEDICA PV, GIRDHAR TRACOM PVT LTD AND OTHERS PARTIES.
7.	AWAL PORTFOLIO LLP	4.75	AMOUNTS RECEIVED WERE UTILISED FOR MAKING INTEREST PAY OUTS TO REGISTERED CLIENTS AND OTHER ENTITIES OF AFSPL.
8.	BIJAY KUMAR AGARWAL	0.37	EMAIL OF BIJAY KUMAR AGARWAL HAS BEEN ASSOCIATED WITH GLOW HOMES TECHNOLOGIES PVT. LTD. IN THE CLIENT MASTER OF AFSPL. CONTRACT NOTES AND OTHER CORRESPONDENCES HAVE BEEN SENT TO GLOW HOMES TECHNOLOGIES PVT LTD ON THE EMAIL ID OF BIJAY KUMAR AGARWAL. BIJAY KUMAR AGARWAL WAS A DIRECTOR IN ANTORDAYA COMMERCIAL & HOLDINGS PVT. LTD. AND AN AUTHORIZED SIGNATORY IN SOME OF THE DALMIA GROUP COMPANIES.
	TOTAL	87.56	

24. As stated in the preceding paragraphs, the Noticee, in its earlier reply before SEBI, had admitted to diverting client funds to third parties. I note that such mis-utilisation of client funds by a broker is a violation of the provisions of the SEBI Circulars, which seek to safeguard funds entrusted by clients with brokers and has a chilling effect on investor confidence. Such acts by registered intermediaries call into question the faith reposed by the investors in market institutions and negatively impact investor participation in the markets. In view of the above, it is noted that AFSPL has misused clients' funds amounting to ₹17.76 Crores for purposes other than those specified in

the SEBI Circulars, misused clients' funds amounting to ₹88.29 Crores for proprietary obligations, and also made excess payments to other clients amounting to ₹87.56 Crores in contravention of the provisions of SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993, and SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

NON MAINTENANCE OF SUFFICIENT NET WORTH

25. Regulation 9 of SEBI (Stock Brokers) Regulation, 1992 (hereinafter referred to as “Stock Brokers Regulations”) lays down the conditions subject to which a certificate of registration is granted by SEBI. These conditions, I note, have to be complied with by a stock broker as long as they hold a valid certificate of registration. One of the conditions specified in Regulations 9 (Clause g) is that a registered stock broker must at all times satisfy the net worth criteria laid down by SEBI. Further, SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, provides for monitoring of the net worth of stock brokers via submission of a half yearly certificate to the stock exchange.
26. I note that the SCN alleges that during the Inspection, it was noted that the Noticee was not meeting the net worth requirements as it had not adjusted proprietary losses and unrecoverable/doubtful debts from the net worth, which resulted in a negative net worth of ₹41.71 Crores, the details of which are given in the table below:-

TABLE 6		
PARTICULARS	AMOUNT IN ₹	AMOUNT IN ₹
SHARE CAPITAL & FREE RESERVES (A)		5,55,09,398
RESERVE (B)		
LESS: LOSSES FOR THE PERIOD APRIL 01, 2017 TILL JULY 30, 2018	42,08,91,277	
ADJUSTED FREE RESERVES		-42,08,91,277
SHARE CAPITAL + FREE RESERVE (C=A+B)		-36,53,81,879
LESS:- NON ALLOWABLE ASSETS		
FIXED ASSETS	76,93,682.39	
NON-ALLOWABLE SECURITIES (UNLISTED SECURITIES)	0	
PREPAID EXPENSES, LOSSES	0	
30% OF MARKETABLE SECURITIES	0	
DOUBTFUL DEBTS & ADVANCES	4,41,09,348	
TOTAL NON-ALLOWABLE ASSETS (D)		5,18,03,030
TOTAL NET WORTH (E=C-D)		-41,71,84,909

27. I note that the Noticee has failed to provide any documentary proof to negate the findings in the FAR. In view of the same, I hold that AFSPL has failed to comply with the continuous net worth requirement and thus violated Regulation 9 (g) of SEBI (Stock Brokers) Regulation, 1992, and SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

F. DEALING WITH UNREGISTERED ENTITIES

28. It is noted from the records that it was observed on verification of the demat accounts of the Top 10 clients of the Noticee for the period April 2017 to November 2018, 5 of the said clients were receiving and returning securities from other clients in their DP accounts, the details of which are given in the table below:

TABLE 7				
CLIENT	NO. OF CLIENTS FROM WHOM SECURITIES WERE RECEIVED /TRANSFERRED	VALUE OF SECURITIES RECEIVED (Rs.)	VALUE OF SECURITIES TRANSFERRED (Rs.)	NET VALUE (Rs.)
MONEY MISHRA FINANCIAL SERVICES	31	308,76,19,236	321,77,59,157	-13,01,39,921
AWANISH KUMAR MISHRA	4	152,33,04,543	164,71,78,459	-12,38,73,916
MONEY MISHRA OVERSEAS PVT. LTD.	6	15,99,05,054	11,20,40,277	4,78,64,777
ENNAR PORTFOLIO LLP	33	41,26,57,333	34,86,23,578	6,40,33,755
AWAL PORTFOLIO LLP	60	16,26,64,050	9,26,37,292	7,00,26,758

29. It is also noted that Money Mishra Financial Services, Awanish Kumar Mishra and Money Mishra Overseas Pvt. Ltd are related entities of the promoter of the Noticee. Given the same, I hold that the Noticee has dealt with securities belonging to third parties/clients in an unauthorised manner through related entities in violation of the provisions of clauses A(2) and A(5) of the Code of Conduct as specified in Schedule II read with regulation 9(f) of the Stock Broker Regulations.

G. INCORRECT MARGIN REPORTING COLLECTION TO THE EXCHANGE IN F&O SEGMENT.

30. SEBI has issued a Circular No. CIR/DNPD/7/2011 dated August 10, 2011, providing the penalties to be levied by stock exchanges on trading members for short-collection/non-collection of margins from clients in Equity and Currency Derivatives segments. I note that it has been alleged in the SCN that AFSPL has done incorrect margin reporting in 7 instances in the F&O segment and thus violated SEBI Circular dated August 10, 2011.
31. I am, however, unable to agree with this charge alleged in the SCN. I note that the Circular only provides an enabling framework for stock exchanges to levy penalties in case of short/non-collections and there may not be a case for SEBI to allege a violation of the Circular in case of short collection by stock brokers. In view of the same, I do not record any adverse findings against the Noticee in respect of this alleged contravention.

H. INCOME DETAILS NOT DECLARED IN THE CLIENT REGISTRATION DOCUMENTS

32. I note from the records that during the inspection, ten client registration documents of AFSPL were examined on a sample check basis. It was observed that in 3 instances, the income details were not captured by AFSPL in the client registration document. The details of the three clients are given in the table below:-

TABLE 8	
CLIENT CODE	CLIENT NAME
C4709	MONEY MISHRA OVERSEAS PVT LTD
C4516	ENNAR PORTFOLIO LLP
C4624	AWAL PORTFOLIO LLP

33. I note from the table above, that the list contains a related entity of the Noticee's promoter - Money Mishra Overseas Pvt Ltd. These lapses show a lack of due diligence while opening client accounts and the lackadaisical approach adopted by the Noticee in complying with regulatory norms. In view of the above, I note that the Noticee has failed to act with due skill, care and diligence in the conduct of its business and thus violated Clauses A (2) & A (5) of the Code of Conduct as specified in Schedule II of Regulation 9 (f) of SEBI (Stock Brokers) Regulations, 1992.

I. ASSURED RETURNS OFFERED TO CLIENTS

34. I note from the records that while examining complaints received from the clients regarding failure to return their credit balance lying with the Noticee, it was observed from the bank books and client ledgers maintained by AFSPL that it had made payments amounting to ₹19.55 Crores, during the period April 1, 2017, to February 18, 2019, to clients from the '*client bank account*' maintained by it. It was noted that these payments, paid at regular intervals (mostly monthly), were made to all 44 clients who had complained against the Noticee regarding non-receipt of credit balance. It was also observed that the payments made to the individual clients were in co-relation with their credit balance of securities/funds available in the books of the AFSPL and had no relation to the pay-out requirements or funding activities arising out of the transactions executed on behalf of such clients. In view of the above, it was alleged in the SCN that the Noticee was offering assured returns to clients for credit balances maintained with it in contravention of the provisions of securities laws.
35. In terms of rule 8 of SCRR, registered stock brokers are not permitted to engage in any other business pertaining to the securities market other than as a broker. Therefore, the Noticee, by providing its clients with assured monthly returns, was

engaging in activities which were beyond the scope of regulated activities a registered stock broker can carry out. Providing returns to clients based on the credit balance of funds/securities, as opposed to returns from trading activities, is more akin to activities carried out by a portfolio manager. Further, the Noticee by engaging in such activities, has failed to conform to the code of conduct applicable to stock brokers, which among other things, casts an obligation on the Noticee to be fair in its transactions with clients, show high standards of integrity and also comply with all applicable provisions of securities laws.

36. In view of the above, I am of the considered view that by making regular payments to clients, which were not commensurate to their trading activity, the Noticee has engaged in business other than broking activity and, thus, indulged in malpractice, not maintained integrity and fairness and not exercised due skill and care in the conduct of its business, in contravention of the provisions of Clauses A (1), (2), (3), (4) & (5) and B (4), (6), (7) & (8) of Code of Conduct as provided under Schedule II read with Regulation 9(f) of the SEBI (Stock Brokers) Regulations, 1992 and Rule 8(3)(f) of the Securities Contracts (Regulation) Rules, 1957. I also note that the Noticee carried out activities covered under the definition of portfolio manager while holding a valid registration and thus violated Section 12(1) of SEBI Act, 1992, read with Regulation 3 of SEBI (Portfolio Managers) Regulations, 1993, and Regulation 42 of SEBI (Portfolio Managers) Regulations, 2020.

J. INCORRECT REPORTING UNDER WEEKLY ENHANCED SUPERVISION REPORT TO THE EXCHANGE

K. MIS-REPORTING / NON-REPORTING OF DATA UNDER ENHANCED SUPERVISION TO NSE

37. It is noted from the records that during the Inspection, on verification of weekly data submitted towards monitoring of clients' funds, it was observed that AFSPL has wrongfully reported the available clients' funds and collaterals, details of which are provided in the table below:-

TABLE 9		
PARTICULARS	TOTAL END OF THE DAY BALANCE IN ALL CLIENT BANK ACCOUNTS (Rs.)	COLLATERAL DEPOSITED IN FORM OF CASH AND CASH EQUIVALENTS (Rs.)
REPORTED	85,38,873	431,28,31,848
ACTUAL	25,17,217	88,31,83,000
EXCESS/ INCORRECT AMOUNT REPORTED TO EXCHANGE	60,21,656	342,96,48,848

38. It was also observed during the Inspection that as on July 27, 2018, AFSPL had wrongly reported details of clients' securities under the monthly enhanced supervision report in case of 32 instances pertaining to 31 clients involving an amount of ₹65.59 lakhs, not reported securities details of 7 clients amounting to ₹102.96 lakhs and misreported having pledged clients' securities in case of 2 clients.
39. It is observed that as on July 27, 2018, AFSPL has reported a nil balance for all clients for the month ending July 27, 2018. However, it had 251 clients as debtors amounting to ₹281.45 Crore and creditors amounting to ₹45.11 Crores, as on July 27, 2018.
40. In view of the above, it was alleged in the SCN that AFSPL wrongly reported funds balance in '*client bank account*' and collateral deposited in form of cash and cash equivalents for the weekly and monthly reports submitted to NSE. I note that the enhanced surveillance framework has been put in place by SEBI to track the position of client funds and securities lying with stock brokers, and this enables the exchange to monitor such activities. The Noticee, I note, has sought to provide wrong information to the exchange to avoid scrutiny and conceal the true position from regulatory authorities. In view of the same, I hold that AFSPL has mis-reported data under enhanced supervision to NSE and thus violated SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/ P/2016/95 dated September 26, 2016.

L. DISPROPORTIONATE EXPOSURE PROVIDED TO CLIENTS

41. It is noted from the records that on verification of books and records of the Noticee pertaining to the income vis-a-vis exposure given to clients, it was observed that in

9 out of 11 clients verified as sample cases, there have been instances of disproportionate exposure granted, the details of which are given in the table below:-

TABLE 10				
CLIENT CODE	CLIENT NAME	INCOME LEVEL	FO MARGIN	FO MARGIN DATES
C4536	MONEY MISHRA FINANCIAL SERVICES	1-5 LAKH	2,11,93,96,420	6-DEC-2017
C4639	AWANISH KUMAR MISHRA	5-10 LAKH	1,67,64,43,845	17-JUL-2018
C4615	JAISRI PROPERTIES AND EXPORTS PVT.LTD.	1-5 LAKH	14,52,10,711	13-DEC-2017
C4716	PRIMARC PROJECTS PVT. LTD.	10-25 LAKH	34,99,95,756	31-JUL-2018
C4629	PUSHP STEELS AND MINING PVT LTD	1-5 LAKH	5,63,29,086	23-MAR-2018
C4595	TEJSWI IMPEX PVT.LTD.	5-10 LAKH	8,38,47,963	6-DEC-2017
C4709	MONEY MISHRA OVERSEAS PVT LTD	INCOME NOT DECLARED IN KYC	25,74,42,257	17-JUL-2018
C4516	ENNAR PORTFOLIO LLP	INCOME NOT DECLARED IN KYC	9,72,05,714	6-DEC-2017
C4624	AWAL PORTFOLIO LLP	INCOME NOT DECLARED IN KYC	4,29,22,740	7-MAR-2018

42. I note that the Noticee has been granting margins to clients which were significantly higher than their recorded income levels. Such actions on the part of the Noticee can have serious systemic issues as the ability of such clients to meet margin calls in case of short fall is suspect. In view of the above, I note that AFSPL has granted disproportionate exposure to clients and thus violated SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR /P/2016/95 dated September 26, 2016, and clause A (5) of the code of conduct as specified in Schedule II of Regulation 9 (f) of SEBI (Stock Brokers) Regulations, 1992.
43. 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 05, 2019, and by NSE on November 04, 2019. 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

44. 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 Allied Financial Services Pvt. Ltd. (INZ000164832).
45. 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.
46. This Order shall come into force with immediate effect.
47. 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 17, 2023

ASHWANI BHATIA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA