

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Section 12(3) of 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:

Sr. No.	Name of Noticee	SEBI Registration No.	PAN
1	CPR CAPITAL SERVICES LIMITED	INB230876935, INF230876935, INE230876935, INB010876937, INF010876937, INE010876937, INB260876934, INF260876934, INE260876935	AAACC3235A

In the matter of CPR Capital Services Limited

Background

- The present matter emanates from a show cause notice dated May 31, 2023 (hereinafter referred to as “**SCN**”) issued to CPR Capital Services Limited (hereinafter referred to as “**CPR / Noticee**”) under regulation 27(1) of SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as “**Intermediaries Regulations**”). *CPR* is registered with SEBI as a Stock broker.
- Vide the above mentioned SCN, *CPR* was called upon to show cause as to why action as recommended by the Designated Authority (hereinafter referred to as “**DA**”) or any other direction as deemed fit should not be issued/imposed on it in terms of regulation 27 of the Intermediaries Regulations. The issued SCN enclosed therewith the Enquiry Report of the DA dated May 22, 2023 made with respect to *CPR*.
- The DA in the Enquiry Report had observed the following against *CPR*:
 - Violation of Anti Money Laundering (AML)/ Combating the Financing of Terrorism (**CFT**) and Know Your Customer (KYC) Norms;
 - Irregularities with respect to Running Account Settlement;
 - Failure to segregate Funds and Securities;

- 3.4. Mis-utilization of client's securities;
 - 3.5. Nomenclature of accounts not followed;
 - 3.6. Misuse of Client's Securities by Pledging;
 - 3.7. Non-submission of Information and non-compliance of directions in SEBI Interim Order dated September 25, 2018;
 - 3.8. Non-redressal of Investor Grievance;
4. Based on the above-mentioned findings, the DA had observed that CPR had violated the following provisions of law during the period April 01, 2015 to December 05, 2016 (hereinafter referred to as the "**inspection period**"):
- 4.1. Clause 5.1(f), (g) of the SEBI Master Circular No. CIR/ISD/AML/3/2010 dated December 31, 2010 & Clause 3 and 4 of SEBI Circular CIR/ MIRSD/ 2/ 2013 January 24, 2013.
 - 4.2. Clause 4, 15 and 33 of Annexure 4 of SEBI Circular CIR/MIRSD/16/2011 dated Aug 22, 2011.
 - 4.3. Clause 12 (d), (e) of Annexure A of SEBI Circular no. MIRSD/SE/Cir- 19/2009 dated December 03, 2009.
 - 4.4. Clause 1 and 2 of Circular no. SMD/ SED/ CIR/ 93/ 23321 dated 18 Nov, 1993.
 - 4.5. Clause 1 and 2.4 and 2.5 of Annexure of SEBI Circular SEBI/ HO/ MIRSD/ MIRSD2/CIR/P/2016/95 dated September 26, 2016.
 - 4.6. Clause 2.1 and 4 of SEBI Circulars no. MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008.
 - 4.7. Clause A (1), (2) and (5) of the Code of Conduct prescribed for the Stock Brokers under Regulation 9 of SEBI (Stock Brokers and Sub-Brokers) Regulation, 1992 (hereinafter referred to as "**Stock Broker Regulations, 1992**").
 - 4.8. Regulation 26(ii) and Regulation 26(iv) of the *Stock Broker Regulations, 1992*.
 - 4.9. Non-compliance of direction given at para 19(c) of SEBI Interim Order dated September 25, 2018.
5. The DA in the Enquiry Report made the following recommendation:
- "Therefore, in terms of Regulation 26 of the Intermediaries Regulations, 2008, I recommend that the registration of the Noticee i.e., CPR Capital Services Ltd.*

(CPR), SEBI Registration No: INB230876935, INF230876935, INE230876935, INB010876937, INF010876937, INE010876937, INB260876934, INF260876934 and INE260876935, as a Stock Broker be cancelled in the interest of the securities market.”

6. As stated above, SCN based on the Enquiry Report was issued to CPR. However, the said SCN sent to the address of CPR viz. “6, Basement Convenience Shopping Centre, Valley Vie Estate, Gurgaon Faridabad Road, Gwal Pahari, Haryana 122003” through SPAD could not be served and was returned undelivered. Thereafter, the aforesaid SCN was served upon the Noticee through Market Infrastructure Institution (Globe Capital Market Ltd.) at the address “A-66, 2nd Floor, Gurunanak Puram Vikas Marg, Laxmi Nagar, Delhi-110092” wherein it was accepted by one of its Directors, namely, Shri Pawan Kumar Garg, on June 19, 2023. However, no reply was received from the Noticee or its aforesaid Director regarding the captioned SCN.
7. Subsequently, in compliance with the principles of natural justice, a personal hearing was scheduled on August 10, 2023 at 2:30 pm. The hearing notice was served on CPR by serving it through email dated August 09, 2023, which was attended by Shri Pawan Kumar Garg (Director of the Noticee) as the Authorised Representative of the Noticee through Video Conferencing. The Authorised Representative, *inter alia*, submitted that the Noticee was in the process of clearing outstanding dues of clients amounting to Rs. 2.5 Crore to the stock exchange and hence, requested that the registration of the Noticee may not be cancelled. The Authorised Representative was granted 15 days’ time from the date of hearing to file a detailed reply on behalf of the Noticee and to also provide the status with regard to payment of the outstanding dues.

Submission of the Noticee

8. I note from the records that the Noticee vide letter dated August 25, 2023 has submitted its reply to the SCN. After perusing the written reply filed by the Noticee in response to the allegations made in the SCN, arguments made before me during the personal hearing, I summarize its replies hereunder:
 - 8.1. *There was not even a single complaint either to SEBI, NSE or BSE against the Noticee and the clients submitted their claims only after the stock exchange called for claims through newspaper;*

- 8.2. *Since the beginning of receipt of complaints of clients, the Noticee was continuously requesting both the exchanges (NSE and BSE) to provide the final amount to be paid to clients. In this regard, earlier the said amount was quoted to be Rs. 9.23 Crore by NSE and Rs. 3.66 Crore by BSE as the total claimed amount. However, on submissions of proof of payments to clients, the said amount quoted by NSE for final settlement was at Rs. 2,49,39,373/-. Further, BSE has not yet provided the final amount to the Noticee regarding the pending claims of the clients.*
- 8.3. *Notwithstanding the above, the Noticee has made the arrangement of Rs. 3 Crores from its friends and relatives to pay off all the liabilities of NSE, BSE, and SEBI. The said amount is expected to be received by the Noticee on or before September 15, 2023. As soon as the said amount is received, the Noticee will clear all its liabilities towards stock exchanges.*
- 8.4. *The Noticee has requested SEBI to not cancel its Certificate of registration and also to allow it to restart its stock broker business once all the dues / outstanding payments are made by the Noticee.*

Consideration of Issues and Findings

9. I have carefully perused the SCN including the Enquiry Report served on the Noticee and all other relevant materials as available on record. After considering the allegation levelled against the Noticee in the instant matter as spelt out in the SCN, the issue which arises for my consideration in the present proceeding is whether the Noticee had violated various provisions of the Securities and Exchange Board of India Act, 1992 (for short “**SEBI Act, 1992**”) Rules, Regulations and Circulars issued by SEBI from time to time relating to its stock broking operations.
10. In order to address the issue at hand, it would be relevant to first highlight the findings of SEBI into the affairs of CPR during the inspection period, which are as follows:

Allegation 1

10.1. Violation of AML / CFT and KYC Norms

- 10.1.1. I note that during the inspection, in respect of compliance with AML guidelines, a sample of 44 clients was shortlisted during the course of Inspection for the period April 2015 to December 2016 wherein the KYCs

and the back office software of the shortlisted clients were perused to examine whether the income level of the clients was commensurate with the payments made by the clients during the said financial year. It was observed that for 21 out of the aforementioned 44 sample clients, the net funds paid by such clients to *CPR* during the relevant financial year, did not match with the income declared by such clients but instead were way above than the declared income, as noted below:

TABLE 1 – AML OBSERVATION OF SELECTED CLIENTS			
SR. No.	CLIENT CODE	NET FUNDS PAID TO BROKER	INCOME AS PER KYC
1.	C173	61,20,12,000	<1 LAKH
2.	C182	4,23,00,000	<1 LAKH
3.	505022	1,79,06,26,568	NW = 3.66 CRORE
4.	C151	18,85,86,896	NW = 78,000
5.	15	2,48,82,01,945	10–25 LAKH
6.	A188	36,80,19,713	>25 LAKH
7.	C154	73,98,31,599	<1 LAKH
8.	505214	1,44,60,000	<25 LAKH
9.	R344	1,03,00,000	1–5 LAKH
10.	GN15	650,000	<1 LAKH
11.	R290	28,35,000	2–5 LAKH
12.	505213	1,64,45,000	>25 LAKH
13.	A129	9,07,35,700	1–5 LAKH
14.	MB71	12,58,550	1–2 LAKH
15.	121179	20,86,30,000	1–5 LAKH
16.	P34	1,66,70,000	1–5 LAKH
17.	C195	2,50,00,000	1–5 LAKH
18.	V660	20,00,000	1–5 LAKH
19.	P4	1,67,43,050	5–10 LAKH
20.	J483	7,70,000	<1 LAKH
21.	P105	8,30,000	1–2 LAKH

10.1.2. I note that the *Noticee* had submitted before the DA that net payment made by the clients to the stock broker cannot be proportionate to the declared income of the client; rather, it is the responsibility of the client to make the payment required for the trading done by him/her. Further, it is the clients' prerogative to see whether the declared income is commensurate with the payments made by him /her during the year. It further submitted that it is impossible for a stock broker to enquire about the source of income from its clients and also to quantify the trading a client was going to undertake and the corresponding amount which the client would be depositing for carrying out such trades. In this regard, it

is important to refer to the Clauses 5.1(f) and (g) of the Master Circular on AML/CFT dated December 31, 2010 issued by SEBI, which reads as follows:

Clauses 5.1(f) and (g) of the Circular dated December 31, 2010

“5. Client Due Diligence ...

5.1 (f) Conduct ongoing due diligence and scrutiny, i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary’s knowledge of the client, its business and risk profile, taking into account, where necessary, the client’s source of funds; and

(g) Registered intermediaries shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.”

10.1.3. In addition to the above, Clauses 3 and 4 of the Circular dated January 24, 2013 and Clause 4 of Annexure 4 of the Circular dated August 22, 2011, puts onus on the stock broker / intermediary to satisfy itself about the genuineness and financial soundness of the client and investment objectives.

10.1.4. In view of the above, it was the responsibility of *Noticee* to ensure that the transactions entered into on behalf of clients were consistent with the registered intermediary’s knowledge of the client, its business and risk profile, taking into account, where necessary, the client’s source of funds. Accordingly, the *Noticee* cannot simply be absolved by expressing its inability or shifting responsibility on to clients to carry out the duties/ faults committed at its end. Therefore, it stands established that the *Noticee* failed to carry out any verification with respect to the source of income of the clients and failed to update the financial details of the clients.

10.1.5. I further note from records that in respect of certain corporate clients of the *Noticee* such as C173, C182, 505022 and 505213, the supporting documents pertaining to identification of Beneficial Owner were not available as part of the KYC documents and on perusal of KYC forms of three clients, viz., N162, S276 and R57, the income details were found to be unavailable either in the KYC or in the back office software. In this

regard, I note that the *Noticee* had submitted before the DA that the income proof with respect to the aforesaid clients might not have been uploaded in back office software due to carelessness of the back office staff and mismanagement. Thus, the *Noticee* had admitted carelessness on its part with regard to non-updating of the income details in its back office software.

10.1.6. It is pertinent to record that the requirement for compliance with the aforementioned Circulars was mandated with a view to instil greater transparency and discipline in the dealings between stock brokers and their clients and also for ensuring protection of the interests of the investors in the securities market. However, I observe that despite categorically codifying the obligations of the stock broker towards its clients by way of the Circulars discussed above, the *Noticee* did not comply with the said provisions. The *Noticee* admitted before the DA to the fact that the risk categorization was not carried out and to the fact that client's income was not compared with their paying capacity. In my view, the acts of transgression on the part of the *Noticee*, as recorded above, have actually resulted in a violation of the SEBI Circulars for which the *Noticee* has offered no *bona fide* explanation in its defence. Accordingly, it stands established that the *Noticee* violated the provisions of Clause 5.1(f), (g) of the SEBI Master Circular No. CIR/ISD/AML/3/2010 dated December 31, 2010 for non-compliance of AML/CFT and KYC norms and risk-based non-categorization of clients; Clause 3 and 4 of SEBI Circular CIR/ MIRSD/ 2/ 2013 dated January 24, 2013 for not following guidelines on identification of beneficial owners and Clause 4 of Annexure 4 of SEBI Circular CIR/MIRSD/16/2011 dated Aug 22, 2011 for not obtaining/maintaining the income details of the clients in the KYC as well as in its back office software.

Allegation 2

10.2. Irregularities with respect to Running Account Settlement

10.2.1. Before proceeding, I would like to refer to the applicable provisions of the SEBI Circulars which are alleged to have been violated by CPR while settling clients' accounts. The same reads as under

SEBI Circular no. MIRSD/SE/Cir-19/2009 dated December 3, 2009

"Running Account Authorization

...

12. 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:

...

(e) 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."

Rights and Obligations document for Stock Broker, Sub-Brokers and Clients as prescribed in Annexure 4 of the SEBI Circular no. CIR/MIRSD/ 16/2011 dated August 22, 2011

"33. The stock broker shall make pay out of funds or delivery of securities, as the case may be, to the Client within one working day of receipt of the payout from the relevant Exchange where the trade is executed unless otherwise specified by the client and subject to such terms and conditions as may be prescribed by the relevant Exchange from time to time where the trade is executed."

10.2.2. From the records, the following is noted from the quarter wise settlement compliance data of the *Noticee*:

TABLE 2 – ACTIVE CLIENTS UNSETTLED						
QUARTERLY SETTLEMENT	TOTAL NUMBER OF ACTIVE CLIENTS DURING INSPECTION PERIOD	NO OF CLIENTS REQUIRED TO BE SETTLED	NO. OF CLIENTS SETTLED	NO. OF CLIENTS NOT SETTLED	NO OF CLIENTS HAVING CONTINUOUS CREDIT BALANCE MORE THAN RS. 10,000 FOR MORE THAN 90 DAYS	ACTIVE CLIENTS WHO REMAIN UNSETTLED (IN %)
JUNE 2015	450	450	288	162	135	30%
SEPTEMBER 2015	468	468	303	165	138	29%
DECEMBER 2015	387	387	266	121	97	25%
MARCH 2016	419	419	278	141	42	10%
JUNE 2016	400	400	258	142	81	36%
SEPTEMBER 2016	429	429	257	172	74	17%

10.2.3. From the table above, it is noted that in each quarter ending June 2015 to September 2016, accounts of around 121-172 clients were not settled by the *Noticee* and among the unsettled clients, many of the clients were observed to have credit balance of more than Rs. 10,000/-. Further, as of quarter ending June 2015 and September 2015, it was observed that accounts of nearly 30% of the clients with credit balance of more than Rs. 10,000/- were not settled by the *Noticee*. The same trend continued again in the first quarter of 2016-17 for around 36% of the clients.

10.2.4. In addition to the above, it was further observed by the DA that the funds of 21 inactive clients and securities of 10 inactive clients were not settled during the inspection period, the details of which are tabulated below:

TABLE 3 – INACTIVE CLIENTS’ FUND BALANCE			
QUARTER ENDING	AMOUNT NOT SETTLED (Rs.)	CC	AMOUNT NOT SETTLED (Rs.)
JUNE 2015	45,47,768	C158	29,00,000
		R443	6,88,232
		P204	3,66,843
		J73	2,99,085
		S582	2,93,608
SEPTEMBER 2015	27,52,296	R443	6,87,932
		S622	6,77,428
		C174	5,20,093
		V415	5,00,000
		P204	3,66,843
DECEMBER 2015	24,53,648	V163	9,99,960
		V415	5,00,000
		P204	3,66,843
		S582	2,93,608
		V416	2,93,237
MARCH 2016	12,41,211	M103	9,54,401
		K19	1,14,408
		K645	77,297
		AF562	53,322
		D124	41,783
JUNE 2016	42,88,016	L29	39,91,989
		K19	1,15,408
		K645	77,297
		AF562	53,322
		I68	50,000
SEPTEMBER 2016	24,61,324	A485	10,00,039
		C501	9,80,000
		P264	2,72,229
		K19	1,15,908
		C186	93,148
TOTAL AMOUNT NOT SETTLED FOR SAMPLE CLIENTS			CUMULATIVE: Rs. 1,77,44,263 MAX UNSETTLED: Rs. 39,91,989

TABLE 4 – INACTIVE CLIENTS' SECURITIES BALANCE			
QUARTER ENDING	DEMAT STOCK	CC	NOT SETTLED
JUNE 2015	39,84,385	C164	22,31,045
		AF562	10,94,783
		S298	2,52,527
		K18	2,08,505
		R126	1,97,526
SEPTEMBER 2015	44,62,700	C164	26,02,886
		AF562	9,28,128
		R233	3,14,653
		N536	3,11,177
		S298	3,05,857
DECEMBER 2015	44,62,700	C164	26,02,886
		AF562	9,28,128
		R233	3,14,653
		N536	3,11,177
		S298	3,05,857
MARCH 2016	20,56,169	AF562	9,37,846
		S298	3,33,615
		N536	2,99,044
		R233	2,68,119
		U3	2,17,544
JUNE 2016	62,38,708	C183	36,50,903
		AF562	10,04,944
		M268	9,85,400
		N536	3,11,899
		R233	2,85,563
TOTAL AMOUNT NOT SETTLED FOR SAMPLE CLIENTS			CUMULATIVE: RS. 2,12,04,665 MAX UNSETTLED: RS. 36,50,903

10.2.5. I note that as per SEBI Circular dated December 3, 2009, the actual settlement of funds and securities has to be done by the stock broker, at least once in a calendar quarter or in a month, depending on the preference of the client. However, it is observed from the above tables that during the inspection period, there were a substantial number of clients having significant outstanding credit balances in their trading accounts that remained unsettled when the instructions relating to the settlement i.e. SEBI Circular dated December 3, 2009 specifically

required every stock broker to settle the funds of the client at least once in a calendar quarter or in a month, depending on the preference of the client. In this respect, the record before me shows that the *Noticee* instead of taking steps to ensure compliance with the mandatory provisions of above Circular, was consistently defaulting in its obligations to comply with the Circular. It is pertinent to note that by not receiving the statement of account on time as stipulated by the SEBI Circular, the clients were kept in dark with respect to the state of affairs in their running accounts maintained with the stock broker, giving rise to the possibility of these accounts of such inactive clients being misutilised for unauthorised trading by employees, authorized persons, etc. of the stock broker. Further, clients in general, whether active or inactive, are entitled to receive the settlement statement periodically as per their preference. This is a prudential norm specified by SEBI considering the interest of investors so that their funds are not kept unsettled by the stock broker for indefinite periods on any pretext. Hence, I find that the commission of the above acts of not settling the funds and securities of client by CPR led to violation of (i) Clauses 12(d) and (e) of Annexure A of the Circular dated December 3, 2009, (ii) Clause 33 of the Rights and Obligations document for Stock Broker, Sub-brokers and Clients as specified in Annexure 4 of the Circular dated August 22, 2011 and (iii) Clauses A (1), (2) and (5) of the Code of Conduct specified for Stock Brokers read with Regulation 9 of the *Stock Broker Regulations, 1992*.

Allegation 3

10.3. Failure to segregate Funds and Securities

10.3.1. During the inspection, following was observed:

10.3.1.1. On perusal of policies and procedures for segregation of proprietary and client funds and securities submitted by *Noticee*, it was observed that no segregation was maintained by *Noticee* between its own and client's funds and securities i.e. its own funds and securities were kept in client bank account and Client Beneficiary account respectively.

- 10.3.1.2. *Noticee's* own securities were kept in the Client Beneficiary Account No. 1205870000000016 along with client securities. For pay-in/ pay-out in case of own trades, securities were transferred from/to the Client Beneficiary account to/from the pool accounts (NSE: 1205870000000020 or BSE: 1205870000000054).
- 10.3.1.3. It was further observed that *Noticee's* own funds were kept in client bank accounts and pay-in/ pay-out for own trades were made from/ to client bank accounts. The main client bank accounts of *Noticee* were IndusInd NSE Account No. 200999458367, IndusInd BSE Account No. 200999458381 and IndusInd CDS Account No. 200999458404.
- 10.3.2. I note that the DA has observed that pay-in of own shares of *Noticee* was made from Client Ben A/C (1205870000000016) and then shares were transferred for pay-in from Client Ben A/c to pool account. It was further observed that in majority of instances examined during the inspection, shares were first received from Account No. 1205870000009967, which was the account of CHP Finance (a related party of *Noticee*), into the Client Ben A/c of such *Noticee* and thereafter, transferred to pool account.
- 10.3.3. Further, an analysis of the selected scrips in the demat statement of Client Ben Account No. 1205870000000016 revealed that in most cases, shares purchased from the market were transferred to the account of CHP Finance (*an entity related to the Noticee*), on the same day. Thereafter, the same were received back from CHP Finance for the purpose of pay-in and transferred to pool account. In some cases, shares were also observed to be transferred and received back at the time of pay-in to the A/c of IFL Promoters (*an entity related to the Noticee*), another related party of *Noticee*. On various occasions, shares purchased by clients have been transferred to the account of CHP Finance from the Client Beneficiary account of *Noticee*. Details of some such transfers of shares (on a sample basis) as observed during the inspection are tabulated below:

TABLE 5 – TRANSFER OF CLIENT SECURITIES

SETTLEMENT NO.	DATE OF TRADE	SCRIP	BUY CLIENT CODE	NET PURCHASE QTY.	QTY. RECEIVED IN CLIENT BEN A/C No. 1205870000000 016	DATE OF RECEIPT	QTY. TRANSFERRED TO A/C OF CHP FINANCE A/C NO. 1205870000009 967	DATE OF TRANSFER
2016009	13-JAN-16	BANK OF INDIA	N907	100	740*	15-JAN-16	740*	15-JAN-16
2017017	24-JAN-17	GOA CARBON LTD.	C182	400	400	27-JAN-17	400	27-JAN-17
2017027	08-FEB-17	SAIL	S26	100	100	10-FEB-17	100	10-FEB-17
2017062	31-MAR-17	GOA CARBON LTD.	A702	1150	1150	05-APR-17	1150	05-APR-17
2017062	31-MAR-17	GOL OFFSHORE LTD.	K672	1000	1000	05-APR-17	1005	05-APR-17

* INCLUDES 640 SHARES PURCHASED BY CHP FINANCE LTD.

10.3.4. It is evident from the aforesaid illustration that clients' shares were transferred by *Noticee* to the account of CHP Finance. In addition, during the *SEBI Inspection*, *Noticee* had admitted that CHP Finance and IFL Promoters were related parties and that funds had been raised from these related parties and towards this purpose, shares had been given as collateral. Such shares belonged to both clients and *Noticee* (in its proprietary capacity). As observed from the *Noticee's* submissions, it kept its own securities in the Client Ben A/C, thus indicating non-segregation of own securities from clients' securities. Further, based on the analysis of the demat statements and data obtained from NSE, it is observed that *Noticee* had also mis-utilized client securities by transferring the same to its related parties.

10.3.5. Similar observations were also noted regarding non-segregation of funds i.e. there were instances of transfer of funds from clients' bank accounts to business bank account and vice versa. It was also stated that the exact nature of transactions and purpose thereof were not understood from the narration recorded in the books and that the amounts also included settlement of own trades.

TABLE 6 – AMOUNTS TRANSFERRED TO/ FROM CLIENT ACCOUNT AND FROM/ To BUSINESS ACCOUNT		
PERIOD	FROM BUSINESS A/C TO CLIENT A/C (Rs. IN CRORE)	FROM CLIENT A/C TO BUSINESS A/C (Rs. IN CRORE)
1.4.2015-31.8.2015	10.93	18.43
1.4.2016- 28.2.2017	12.66	12

10.3.6. In this regard, I note that the *Noticee* has admitted that the funds were being routed from clients' accounts was due to the carelessness of its staff even though the *Noticee* was required to keep a strict segregation between its own funds and clients' funds at all times. In view of the above mentioned failure on part of the *Noticee*, I find that the *Noticee* had not segregated its own funds and securities from those of its clients i.e. its own funds and securities were kept in client bank account and Client Beneficiary account respectively. Thus, I find that the *Noticee* had violated the provisions of the above mentioned SEBI Circulars.

Allegation 4

10.4. Mis-utilization of client's securities

10.4.1. It was alleged that the *Noticee* had mis-utilized clients' securities by transferring them to related parties. I note from records that CPR Commodities, CHP Finance Pvt. Ltd. and IFL Promoters are entities connected with the *Noticee*. It is further noted that the *Noticee* had not disputed the alleged connection with the aforesaid entities during any stage of these proceedings. Securities detail of 5 days with highest net sale (based on value of sale) on proprietary/own account during each of the years in the inspection period (F.Y. 2015-16 & FY 2016-17) was sought from *Noticee*. Out of the securities that were sold on the aforesaid days, certain sample securities were checked to see whether the securities were delivered for settlement (pay-in of the securities) from *Noticee's* proprietary/own beneficiary demat account (1205870000003251) or not. Following are the observations of the DA regarding transaction with the afore-noted related entities

10.4.1.1. In all instances taken up for examination, it was observed that pay-in of own shares was made from Client Beneficiary A/c (1205870000000016) and transferred to pool account. Further, it

was observed that in most of the cases, shares were first received from A/c no. 1205870000009967, which is the account of CHP Finance Pvt. Ltd., the sister concern of *Noticee*, into its Client Beneficiary A/c and thereafter, were transferred to the pool account;

10.4.1.2. Further, upon analysis of the selected scrips in the demat statement of Client Beneficiary A/c no. 1205870000000016, it was observed that in most of the cases, shares purchased from the market for various clients were transferred by *Noticee* to the account of CHP Finance Pvt. Ltd. on the same day. Thereafter, the same were received back from CHP Finance Pvt. Ltd. for the purpose of pay-in and transferred to the pool account. Similarly, shares were also observed to be transferred (and received back at the time of pay-in) to the account of IFL Promoters Ltd., another sister concern of the *Noticee*.

10.4.2. Since numerous instances of transfer of shares to the account of CHP Finance Pvt. Ltd. were observed from the Client Beneficiary account, certain entries were selected at random and details of client codes in which such purchase/ sale had been done were sought from NSE. It was observed that on various occasions, shares purchased by clients had been transferred to the account of CHP Finance Pvt. Ltd. from the *Noticee's* Client Beneficiary account. Details of such transfer of shares (on a sample basis) are depicted in the table below:

TABLE 7								
Settlement No.	Date of trade	Script	Buy Client Code	Net Purchase Qty	Qty. received in client Ben A/c no. 12058700 00000016)	Date of receipt	Qty. transferred to A/c of CHP Finance (A/c no. 120587000 0009967)	Date of Transfer
2016009	13-Jan-16	Bank of India	N907	100	740*	15-Jan-16	740*	15-Jan-16
2017017	24-Jan-17	Goa Carbon Ltd.	C182	400	400	27-Jan-17	400	27-Jan-17
2017027	08-Feb-17	SAIL	S26	100	100	10-Feb-17	100	10-Feb-17
2017062	31-Mar-17	Goa Carbon Ltd.	A702	1150	1150	05-Apr-17	1150	05-Apr-17
2017062	31-Mar-17	GOL Offshore Ltd.	K672	1000	1000	05-Apr-17	1005	05-Apr-17
* Includes 640 shares purchased by CHP Finance Ltd.								

10.4.3. I note that the *Noticee* has not disputed any of the aforesaid transactions.

It shows that Clients' securities have been routed/diverted to entities that were not the beneficiary owner of such securities. Accordingly, in the absence of any rational justification from the *Noticee* to substantiate such transactions, such transactions certainly would amount to mis-utilization of Clients' securities.

10.4.4. In view of the above admitted failure/non-compliance on the part of the *Noticee*, I conclude that the *Noticee* had mis-utilized client securities by transferring the same to its related parties.

Allegation 5

10.5. Nomenclature of accounts not followed

10.5.1. Before moving forward on the findings of the DA, it is important to mention that clause 1(B) of the SEBI Circular no. SMD/SED/ CIR/93/23321 dated November 18, 1993 clearly states that every member broker is required to pay money to an account kept in the name of the member wherein the

title should include the word “*client*”. It is noted that the system of assigning a clear-cut nomenclature of clients’ accounts was introduced in order to prevent misuse of clients’ funds lying in these accounts. It was also prescribed to facilitate conducting a Regulatory exercise, such as inspections, to become easier in light of clear cut identification of clients’ accounts. Also, it would be easier to find out usage of funds from those clients’ account and to prevent misuse on the part of a stock broker, if any, to hide some of the clients’ accounts from regulatory oversight.

10.5.2. On the issue of failure of the *Noticee* to properly name the clients’ bank accounts i.e. names of some of the bank accounts where clients’ funds were kept were not observed to be in terms of the requirement of SEBI 1993 Circular. Details of such bank accounts are given below:

TABLE 8 – CLIENT BANK ACCOUNTS WITH INCORRECT NOMENCLATURE			
S. No.	BANK ACCOUNT NO.	NAME OF BANK AND BRANCH	PURPOSE
1.	2577201017471	CANARA BANK, CONNAUGHT CIRCUS , NEW DELHI, 110001	CLIENT
2.	00030340002185	HDFC BANK, K.G. MARG, NEW DELHI-110001	CLIENT
3.	05250340000098	HDFC BANK LTD, AMBALA ROAD, KAITHAL, HARYANA -1360	CLIENT
4.	200999458367	INDUSIND BANK, BARAKHAMABA ROAD, DELHI - 110001	NSE CLIENT
5.	200999010657	INDUSIND BANK, BARAKHAMABA ROAD, DELHI- 110001	CLIENT
6.	200999458381	INDUSIND BANK, BARAKHAMABA ROAD, DELHI- 110001	BSE CLIENT
7.	200999458404	INDUSIND BANK, BARAKHAMABA ROAD, DELHI - 110001	NSE CDS CLIENT
8.	1399009300039851	PNB, PREET VIHAR, DELHI – 110092	CLIENT

10.5.3. From the above table, I note that there were 8 bank accounts which were not properly nomenclated by the *Noticee*. In this regard, *Noticee* had submitted before the DA that the omission of the “Client A/C” in the client beneficiary account was a mistake of its bank which had issued the cheque books without mentioning the client account on face of the cheque book and the same was later rectified. In this regard, I note that even if the submission advanced by the *Noticee* is accepted that it was the bank’s mistake, ultimately, *Noticee*, being the account holder, was

responsible to get the same rectified as early as possible which was not done as evident from the observations during the inspection. Further, as observed from the above table, the said omission of not nomenclating the “Client A/c” was not a solitary instance but in eight different client accounts with 4 different banks, which clearly implies that the same error was repeated at the banks’ end in all the aforementioned accounts.

- 10.6. In view of the aforesaid discussions regarding Allegations 3 to 5, I am constrained to hold that on multiple occasions, CPR had not **segregated clients’ funds and securities**, used its clients’ securities for other purposes and not properly nomenclated clients’ bank accounts. The numerous instances as highlighted in preceding paragraphs and which had taken place across months, show that using client’s securities was not a onetime matter or an inadvertent error but was done habitually. Such actions of CPR, which led to non-availability of clients’ securities and misappropriation of clients’ securities not only defies the purpose that SEBI is trying to achieve through its Circular pertaining to handling of client’s securities by the stock brokers. Such actions of CPR have to be viewed seriously. As noted above, no explanation was furnished by the *Noticee* (CPR) rebutting or disputing the above findings from the inspection of SEBI and the consequent allegations made in the SCN, thereby leaving no doubt in my mind that the aforesaid acts on the part of the CPR of using clients’ securities either for its own benefit or for the beneficial interest of other entities who did not own those securities, have resulted in a violation of the provisions of Clauses 1 and 2 of SEBI Circular no. SMD/SED/CIR/93/23321 dated November 18, 1993, Clause 1 and 2.4 of Annexure of SEBI Circular SEBI/ HO/MIRSD/MIRSD2/CIR/P/2016/95 dated Sept 26, 2016, Clause 15 of Annexure 4 of the SEBI Circular no. CIR/MIRSD/16/2011 dated August 22, 2011 and Clause A (1), (2) and (5) of the Code of Conduct prescribed for the Stock brokers under Regulation 9 of *Stock Broker Regulations, 1992*.

Allegation 6

10.7. Misuse of Client's Securities through Pledging

10.7.1. I note that the DA had observed that the Noticee had availed of Loan Against Shares (LAS) facility by pledging securities belonging to clients with NIL or credit balance in violation of the Circular dated November 18, 1993 and Clause 2.5 of the Annexure to the Circular dated September 26, 2016, Clauses 2.1 and 4 of the SEBI Circular No. MRD/DoP/SE/Cir – 11/2008 dated April 17, 2008, Clauses A(1), (2) and (5) of the Code of Conduct specified for Stock Brokers read with Regulation 9 of the Stock Brokers Regulations, 1992. For the facility of reference, the afore-stated provisions of law are reproduced below:

Clause 2.5 of the Annexure to the Circular dated September 26, 2016

"2.5. As per existing norms, a stock broker is entitled to have a lien on client's securities to the extent of the client's indebtedness to the stock broker and the stock broker may pledge those securities. This pledge can occur only with the explicit authorization of the client and the stock broker needs to maintain records of such authorisation. Pledge of such securities is permitted, only if, the same is done through Depository system in compliance with Regulation 58 of the SEBI (Depositories and Participants) Regulations, 1996. To strengthen the existing mechanism, the stock brokers shall ensure the following:

2.5.1. Securities of only those clients can be pledged who have a debit balance in their ledger.

2.5.2. Funds raised against such pledged securities for a client shall not exceed the debit balance in the ledger of that particular client.

2.5.3. Funds raised against such pledged securities shall be credited only to the bank account named as "Name of the Stock Broker - Client Account".

2.5.4. The securities to be pledged shall be pledged from BO account tagged as "Name of the Stock Broker - Client Account".

2.5.5. Stock Brokers shall send a statement reflecting the pledge and funding to the clients as and when their securities are pledged/unpledged."

Clause 2.1 and 4 of the Circular dated April 17, 2008

"2.1 Brokers should have adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client's margin requirements / pay-ins. Brokers

should also maintain records to ensure proper audit trail of use of client collateral.

4. In case client collateral is found to be mis-utilised, the broker would attract appropriate deterrent penalty for violation of norms provided under Securities Contract Regulation Act, SEBI Act, SEBI Regulations and Circulars, Exchange Byelaws, Rules, Regulations and Circulars “

10.7.2. Noticee informed SEBI that it had availed the facility of LAS from financial institutions namely, Aditya Birla Finance Ltd. (“**ABFL**”), ECL Finance Ltd. (“**ECL**”), Canara Bank and Windpipe Finvest Pvt. Ltd. (“**WFPL**”). During the Inspection, the date, on which highest LAS was availed, was selected for each year and Noticee was advised to provide the following details:

10.7.2.1. Total value of shares pledged and amount availed;

10.7.2.2. Client-wise details of securities pledged;

10.7.2.3. Financial Ledger balance of such clients.

10.7.3. Following was observed on the basis of the data submitted by the Noticee:

TABLE 9– OBSERVATIONS REGARDING LAS ACCOUNT					
DATE	TOTAL AMOUNT RAISED	NO. OF CLIENTS WHOSE SECURITIES PLEDGED (A)	OUT OF A, NO. OF CLIENTS WITH CREDIT BALANCE/ NIL BALANCE WHOSE SECURITIES WERE PLEDGED	TOTAL VALUE OF SECURITIES PLEDGED (B)	OUT OF B, VALUE OF SECURITIES PLEDGED OF CLIENTS WITH CREDIT BALANCE / NIL BALANCE
30-09- 2015	11,65,17,310.60	233	76*	34,47,73,281.10	17,60,65,813.97
31-08- 2016	12,25,31,455.18	246	132	42,45,54,994.84	34,71,71,362.53
*THE BROKER PROVIDED LEDGER BALANCES ONLY IN RESPECT OF 112 CLIENTS, OUT OF WHICH 76 HAD POSITIVE LEDGER BALANCES. IN RESPECT OF BALANCE 121 CLIENTS, NO LEDGER BALANCES WERE PROVIDED					

10.7.4. It is seen that the broker raised funds by pledging securities of clients with NIL or credit balances. One must note that the securities lying with the stock broker are held by the stock broker in a fiduciary capacity. The stock broker has to credit the securities to the demat account of its clients if the securities are fully paid. Even for some reason, if the securities of the clients are lying with the stock broker, the stock broker was prohibited

under law from using those securities for its own purpose. In the instant case, the *Noticee* had on numerous occasions, blatantly violated the aforementioned prohibition by illegally pledging securities of clients with NIL or credit balance. It is pertinent to note that pledging of shares of debit balance clients is allowed only to the extent of the debit balance of such client. Such an act seriously questions not only its integrity but also the fairness in the conduct of its stock broking business. The act of CPR in dealing with the shares of its clients without their authorisation, is an act which hampered the interests of its clients. Such actions of diversion and misappropriation of clients' securities as have been committed by CPR, have to be viewed seriously.

10.7.5. In view of the above, it stands established that the *Noticee* had violated the provisions of SEBI Circular no. SMD/SED/CIR/93/23321 dated 18 Nov, 1993, Clause 2.5 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Clause 2.1 and 4 of SEBI Circular no. MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008 and Clause A (1), (2) and (5) of the Code of Conduct prescribed for the Stock brokers under Regulation 9 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 by having transactions with the related parties.

Allegation 7

10.8. **Non-submission of Information and non-compliance of directions in SEBI Interim Order dated September 25, 2018.**

10.8.1. The relevant extracts of applicable provisions of Stock Brokers Regulations are reproduced below:

Regulation 26(ii) of the Stock Brokers Regulations, 1992.

“26. A stock broker shall be liable for monetary penalty in respect of the following violations, namely –

(ii) Failure to furnish any information, books or other documents within 15 days of issue of notice by the Board.

Clause A(5) of the Code of Conduct for Stock Brokers as prescribed under Schedule II

A. General

(5) Compliance with statutory requirements: A stock-broker 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.

Conditions of registration as specified under Regulations 9(b) and (f) of the Stock Brokers Regulations, 1992.

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

(b) he shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him.

(f) he shall at all times abide by the Code of Conduct as specified in Schedule II.”

10.8.2. The DA report records the following in respect of non-submission of information:

10.8.2.1. The Noticee had failed to provide complete information/data sought from it by the inspection team during the inspection.

10.8.2.2. Further, SEBI, in order to solicit cooperation from the Noticee, had held a meeting with one of its Directors, namely Shri Pawan Kumar Garg, wherein the Noticee was advised to submit certain information not later than August 14, 2017. However, no data was submitted by the Noticee. Subsequently, the Noticee was advised to appear before SEBI on September 25, 2017 and September 27, 2017. However, the Noticee failed to appear before SEBI on both the occasions.

10.8.2.3. Several emails / letters (August 09, 2017, August 22, 2017, September 11, 2017, September 25, 2017 and September 28, 2017 were also addressed to the Noticee reminding it to submit the requisite data. However, the Noticee failed to submit any data / information as sought by SEBI.

10.8.3. Further, it is also noted that the Noticee did not comply with the directions given at paragraph 19(c) of the Interim Order dated September 25, 2018 for ‘providing a full inventory of all their assets, whether movable or

immovable, or any interest or investment or charge in any of such assets, including details of all their bank accounts, demat accounts and mutual fund investments immediately but not later than 5 working days from the date of receipt of these directions.' Subsequently, the *Noticee* submitted to DA that there were no immovable assets in the name of the *Noticee* which were free of charge either from bank or financial institutions.

10.8.4. In this regard, I note that although the *Noticee* was required to provide a full inventory of all its assets, whether movable or immovable, or any interest or investment or charge in any of such assets, including details of all its bank accounts, demat accounts and mutual fund investments within 5 working days from the date of receipt of the directions, the same was not provided. Instead, the *Noticee* has now provided some list of movable and immovable assets in its name and that too without any proper details of the said assets. Accordingly, in view of the above, I note that the *Noticee* failed to comply with the directions given at para 19 (c) of SEBI Interim Order dated September 25, 2018.

10.8.5. It is pertinent to note that SEBI as a statutory body was constituted to *inter alia*, promote orderly and healthy growth of securities market apart from protecting investors' interest. Intermediaries are duty bound to produce the relevant records as and when required by the inspecting team or enquiring authority or by any person authorised by SEBI in this behalf. Therefore, I find that the *Noticee* had violated Regulation 26 (ii) of the Stock Brokers Regulations, 1992, Clause A (1), (2) and (5) of the Code of Conduct prescribed for the Stock brokers under Regulation 9 of Stock Brokers Regulations, 1992 and Conditions of registration as specified under Regulation 9(b) and (f) of the Stock Brokers Regulations, 1992.

Allegation 8

10.9. Non-redressal of Investor Grievance

10.9.1. Adverting to the above issue, it would be appropriate to reproduce the applicable provisions:

SEBI (Stock Brokers and Sub- Brokers) Regulations, 1992

Conditions of registration.

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

(e) he shall take adequate steps for redressal of grievances, of the investors within one month of the date of receipt of the complaint and inform the Board as and when required by the Board.”

Regulation 26(iv) of the Stock Brokers Regulations, 1992.

“26. A stock broker shall be liable for monetary penalty in respect of the following violations, namely –

(iv) Failure to redress the grievances of investors within 30 days of receipts of notice from the Board.”

10.9.2. It is noted that the Noticee failed to resolve various complaints of its clients. The number of the complaints and the value of the claim pending against Noticee based on the records available before me is detailed as under:

TABLE 10		
Exchange	No. of complaints	Value of Claim
NSE		
As on July 5, 2018	112	Rs. 6.41 Crore
As on January 8, 2020	36	Rs. 2.86 Crore
BSE		
As on July 6, 2018	61	Rs. 1.73 Crore
As on Dec 13, 2019	70	Rs. 1.93 Crore

10.9.3. I note from the above table that as on July 2018, 173 complaints were pending against the Noticee with a cumulative claim value of Rs. 8.14 Crore. I note from the records that the Noticee was declared a defaulter by BSE, on November 5, 2019 and by NSE, on December 23, 2019. However, even prior to the Noticee being declared a defaulter, as noted from the table above, the total number of grievances pending (NSE + BSE) was 173 for claims amounting to Rs. 8.14 Crore.

10.9.4. It is worthwhile to mention that speedy and effective redressal of grievances is an important hallmark for a healthy development of the securities market. If investors do not get replies /outstanding dues from

the stock broker on time, they may be discouraged to invest in the securities market to avoid falling prey to such unprofessional and illegal practices being adopted by deviant stock brokers like CPR. This may, therefore, adversely affects the growth of the capital market. Hence, the importance of complaint redressal cannot be undermined and its sanctity has to be maintained by all the intermediaries / market participants. In the instant matter, as per available records, the inability to redress investors' grievances in question had continued unabated for a considerable period of time and well beyond the permissible time period of one month specified under the applicable Regulations and Circular. This is a violation of law and I find that CPR by taking no effective steps towards redressal of grievances of its clients had violated provisions of regulation 26 (iv) and regulation 9 (e) of *Stock Broker Regulations, 1992*.

11. To conclude, the information and data gathered at the time of inspection unequivocally brings to light, the various regulatory lapses noticed by the way CPR was operating, especially mis-managing its clients' funds and securities. Further, the violations committed by CPR are undoubtedly grave in nature and which were carried out for a considerable period of time unabatedly.
12. I note that the *Noticee* has, *inter alia*, submitted that it has made the arrangement of Rs. 3 Crores from its friends and relatives to pay off all the liabilities of NSE and BSE and the said amount is expected to be received by the *Noticee* by September 15, 2023. However, it is pertinent to note that as confirmed by the stock exchanges, till date the said amount has not been paid off by the *Noticee*. Notwithstanding the above, even if the *Noticee* clears the dues payable to the stock exchanges, such act would not alter the fact that the aforesaid discussed violations have been committed by the *Noticee* while acting as a stock broker in the securities market.
13. In view of the aforesaid findings, it is held that CPR has carried out its stock broking activities during the inspection period in contravention of various provisions of *SEBI Act, 1992* Regulations and Circulars. A stock broker is required to maintain high standards of integrity, promptitude and fairness in the conduct of its business dealings, and ensure that its interests are not in conflict

with its clients. As a regulator of the capital markets, SEBI has the duty to safeguard the interest of investors and protect the integrity of the securities market.

14. I note that the DA had recommended that the Certificate of registration of CPR be cancelled. Having considered the allegations with supporting evidence, I find no reason to disagree with the recommendation given by the DA.

Directions

15. In view of the foregoing, I, in exercise of the powers conferred upon me under Sections 12 (3) and 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 27 (5) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby cancel the Certificate of registration granted to **CPR Capital Services Limited** having **SEBI Registration No. INB230876935, INF230876935, INE230876935, INB010876937, INF010876937, INE010876937, INB260876934, INF260876934 and INE260876935.**
16. The Order shall come into force with the immediate effect.
17. A copy of this order shall be forwarded to CPR Capital Services Limited and all recognized Stock Exchanges.

DATE: SEPTEMBER 20, 2023
PLACE: MUMBAI

ASHWANI BHATIA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA