

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: S. K. MOHANTY, WHOLE TIME MEMBER

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	PAN
1	Amrapali Aadya Trading & Investment Pvt. Ltd.	AAECA3909P
2	Aadya Commodities Pvt. Ltd.	AAHCA2094C

(The entities mentioned above are individually known by their respective name and collectively referred to as "Noticees")

In the matters of Amrapali Aadya Trading & Investments Pvt. Ltd. and Aadya Commodities Pvt. Ltd.

Background

- The present matter emanates from show cause notices dated August 10, 2021 (hereinafter referred to as "SCN") issued to Amrapali Aadya Trading & Investments Pvt. Ltd. (hereinafter referred to as "AATIPL") and Aadya Commodities Pvt. Ltd. (hereinafter referred to as "ACPL") under regulation 27(1) of SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as "**Intermediaries Regulations**"). AATIPL and ACPL are registered with SEBI as Stock broker and their registration details are as follows:

Table No. 1

Sl. No.	Noticee Name	Exchange	Segment	Registration No.
1	Amrapali Aadya Trading & Investment Pvt. Ltd.			
	Stock broker	NSE	Currency derivative	INE231183436,
			Equity derivative	INF231183436,
			Equity	INB231183436
		BSE	Equity derivative	INF011183432
			Equity	INB011183432

		MSEI	Equity derivative	INF261183439
			Equity	INB261183439
2	Aadya Commodities Pvt. Ltd.			
	Commodity Derivatives Broker	MCX		INZ000028637

2. Vide the above mentioned SCNs, the *Notices* have been called upon to show cause as to why action as recommended by the Designated Authority or any other direction as deemed fit should not be issued/imposed on them in terms of regulation 27 of the Intermediaries Regulations. The issued SCNs were enclosed therewith the report of the Designated Authority (hereinafter referred to as “DA”) dated July 20, 2021 made with respect to AAT IPL and ACPL.
3. The DA in his reports had observed that AAT IPL and ACPL have failed to / indulge in the following:
 - 3.1. Failed to submit the information sought through summons.
 - 3.2. Failed to segregate clients’s funds and securities.
 - 3.3. Sold the clients securities from the employee’s account.
 - 3.4. Mis-utilised client’s securities by pledging.
 - 3.5. Transferred funds pertaining to clients to third parties and to its related entities / Directors.
 - 3.6. Indulged in activities other than stock broking such as - withdrawal/ deposits of cash from various bank accounts and providing assured returns to clients/ investors.
 - 3.7. Indulged in falsification of their accounts to conceal the pledging of shares, cash withdrawal and funds movement to related entities
 - 3.8. Failed to carry out running account settlement.
 - 3.9. Failed to redress grievances of its clients.
4. The DA observed that the aforesaid acts of AAT IPL and ACPL, have led to the violation of the provisions of securities laws as enumerated below (from paragraph 4.1 to 4.10) during the period April 1, 2011 to March 31, 2017 (hereinafter referred

to as the "**investigation period**"). However, wherever deemed necessary references have also been made by the DA to the period falling outside the investigation period.

- 4.1. Sections 12 (1), 12 (1A), 12A (a), (b) and (c) of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "**SEBI Act**").
 - 4.2. Regulations 3(a), (b), (c) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**").
 - 4.3. Circular no. SMD/SED/CIR/93/23321 dated November 18, 1993.
 - 4.4. SEBI Circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003.
 - 4.5. Clauses 15 and 33 of 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.
 - 4.6. Regulations 9 (b), (e) and (f) and Clauses A (1) to (5) of the Code of Conduct prescribed for the Stock brokers under regulation 9 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 (hereinafter referred to as "**Stock Brokers Regulations**").
 - 4.7. Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957.
 - 4.8. Clause 12 of SEBI Circular no. MIRSD/SE/Cir-19/2009 dated December 3, 2009.
 - 4.9. SEBI Circular SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/95 dated September 26, 2016.
 - 4.10. SEBI Circular no. CIR/MRD/ICC/ 30/2013 dated September 26, 2013.
5. The DA has in his report made the following recommendation:

AATIPL:

"Considering the above facts and circumstances of the case, in terms of the provisions of Regulation 26(1)(ii) of the Intermediaries Regulations read with Regulation 12(1) of the PFUTP Regulations and Regulations 27 (ii), (iii), (iv), (vii), (ix), (xiv), (xv), (xvi)

and (xvii) of Stock Brokers Regulations, I hereby recommend cancellation of the certificate of registration granted to the following Noticee:

Noticee No.	Registration No. -
Amrapali Aadya Trading & Investment Pvt. Ltd. (AAECA3909P)	Registration No. - INE231183436, INF231183436, INB231183436, INF011183432, INB011183432, INF261183439 and INB261183439

”

ACPL:

“Considering the above facts and circumstances of the case, in terms of the provisions of Regulation 26(1)(ii) of the Intermediaries Regulations read with Regulation 12(1) of the PFUTP Regulations and Regulations 27 (ii), (iii), (iv), (vii), (ix), (xiv), (xv), (xvi) and (xvii) of Stock Brokers Regulations, I hereby recommend cancellation of the certificate of registration granted to the following Noticee:

Noticee No.	Registration No. -
Aadya Commodities Pvt. Ltd. (AAHCA2094C)	Registration No. - INZ000028637

”

- As stated above, on the basis of the Enquiry Reports, SCNs were issued to AATIPL and ACPL. The SCNs were sent to AATIPL and ACPL on the available email id as per the record of SEBI as well as through speed post acknowledgement due. Though the SCNs sent at the email ids were not bounced back, however, considering the fact that the SCNs sent through post, came back undelivered with remark “addressee left without instructions”, additional steps were taken to serve the SCNs by doing affixation at the last known address of AATIPL and ACPL, as available in records. It is also noticed that subsequently, vide hearing notices dated March 25, 2022, AATIPL and ACPL were provided an opportunity of personal hearing in the matter on April 27, 2022. The hearing notices which were sent through speed post acknowledgement due, came back undelivered with remark, “consignment details not found”. The hearing notices were then affixed at the last known address of AATIPL and ACPL, as available in records. However, neither AATIPL and ACPL nor their Authorised Representative appeared for the scheduled personal hearing.

Consideration of Issues and Findings

7. I note from the records that AAT IPL and ACPL have neither filed any reply to the SCN nor have availed the opportunity of personal hearing granted to them. It will be appropriate here to note that an investigation has been conducted by SEBI in the matter and the findings in the investigation report are primarily based on analysis of bank account statements, information received from Exchanges and Depositories, deposition of officials / employees of AAT IPL and ACPL and other records maintained by and reiterated from AAT IPL and ACPL. Consequently, the instances of irregularities/observations pointed out in the investigation report are illustrative in nature and are not all-inclusive. In the light of the aforesaid factual position, I proceed to adjudicate the matter, based on materials available on record. After going through all the material as aforesaid available on record, I find that the primary issue that requires determination in the present matter is whether AAT IPL and ACPL have by their acts and conduct during the investigation period, have violated the applicable provisions of securities law, as outlined in preceding paragraphs and as alleged in the SCNs.
8. As noted in the beginning of the present Order, neither AAT IPL and ACPL nor any Authorised Person on their behalf, has replied to the allegations levelled in the SCNs with respect to the findings of the investigation / enquiry report. Nevertheless, I proceed to examine as to whether the facts unearthed during the course of the investigation and as noted in the enquiry report basis which various allegations in the SCNs have been made against AAT IPL and ACPL, are having support of sufficient evidence.
9. Before proceeding further, I find it appropriate to summarize the findings of the investigation through a narrow compass which are as follows:

9.1. Non-submission of information sought through summons

It is noted from the materials made available on record that AAT IPL and ACPL has failed to provide complete information/data sought from them at the time of investigation. Vide summons dated August 31, 2017, October 9, 2017, January 24, 2018 (only to AAT IPL) and February 7, 2018 certain basic information viz., Annual

Returns for the FYs 2011 to 2017, complete client master, details of trading carried out etc. was sought from them. However, AAT IPL and ACPL have failed to submit even these basic data / information as sought by the investigating team.

It is pertinent to note that SEBI as a statutory body has been constituted to *inter alia*, promote orderly and healthy growth of securities market apart from protecting investors' interest. For discharging this onerous statutory responsibility and with a view to achieving the underlined statutory mandate thrust upon it, SEBI as a regulator is required to conduct inspection / investigation and enquiries into the affairs of various registered intermediaries from time to time. It must be remembered that the purpose of carrying out inspection of the registered intermediaries is not punitive rather the object of such periodic inspections is to ensure compliance by a registered intermediary with the relevant provisions of the Act, Rules, regulations, by-laws and circulars issued from time to time which are meant to regulate the securities market and have to be necessarily adhered to by the said intermediary. For this purpose, first and the foremost requirement is active co-operation from the concerned officials of the intermediaries where inspection / investigation is being carried out. They are duty bound to not only produce the relevant records as and when required by the investigating team or enquiring authority or by any person authorised by SEBI in this behalf, but also to furnish all the data and information, as and when called upon or sought from it. The act of withholding of information or any act of non-cooperation with the Regulator, shall amount to posing hindrance in the way of conducting smooth inspection / investigation and enquiry by the Regulator to collect facts and information that are relevant and necessary to arrive at a just and fair conclusion as per the provisions of law. I have already noted above that the Noticees have not filed any response to the SCNs issued in the matters, nor have they preferred to attend the personal hearing granted to them. Therefore, I see no document produced before me contrary to the aforesaid allegation of non-production of information / data or non-cooperation made in the SCN. Thus, I find that AAT IPL and ACPL by not cooperating with the investigating team and by not furnishing the data and information sought from them by SEBI, have committed a serious breach of regulations of SEBI apart

from an act of indiscipline which can have severe repercussions in the market. The aforesaid non-cooperation exhibited by AATIPL and ACPL cannot be taken lightly as it has prevented SEBI from performing its statutory duties enjoined upon it under SEBI Act and therefore, it is held that AATIPL and ACPL have in the process violated clauses 1, 2 and 5 read with regulations 9(b) and (f) of Stock Brokers Regulations. The text of the aforesaid provisions is reproduced herein below:

Stock Brokers Regulations

Conditions of registration.

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;

Code of Conduct for Stock Brokers

A. General.

(1) Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.

(2) Exercise of due skill and care: A stock-broker shall act with due skill, care and diligence in the conduct of all his business.

...

(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.

9.2. Non segregation of own and clients' securities and misuse of clients' securities

It was observed from the bank account statement analysis of AATIPL and ACPL that during the investigation period, on many instances there were movement of funds between various clients' bank account(s) and the bank account(s) of both AATIPL and ACPL, on a regular basis (mainly daily), the reasons for which remain

unexplained. Further, an analysis of demat account statement of AATIPL had revealed several instances of movement of securities between AATIPL and ACPL. On enquiring with the Exchanges regarding ACPL's trades as a client of AATIPL, National Stock Exchange of India Ltd. (hereinafter referred to as "NSE") informed SEBI that though ACPL was registered as a client of AATIPL, however, no trading was carried out by it during the relevant period. Further, BSE Ltd. has informed that ACPL was not registered as a client with any trading members of BSE Ltd. Hence, the movement of securities between AATIPL and ACPL remained questionable.

It was noted at the time of investigation that AATIPL and ACPL have misused clients' securities by adopting the following methods:

- Sale of clients' securities through employees' accounts
- Pledging of clients' securities

9.2.1.Sale of clients' securities through employees' accounts

Mr. Sanjeeva Sinha, Director of AATIPL during his deposition on August 11, 2017 has admitted that stocks of some clients were sold off through the accounts of certain employees' viz. Mr. Deepak Kumar, Mr. Ranjit Kumar, Mr. Sanjeet Kumar and Mr. Mukesh Kumar. In this regard, analysis of the trades carried out in the accounts of the aforesaid four employees reveals that during the period from April 1, 2016 to August 10, 2017, these employees have sold securities worth INR 130.85 crore. It was also observed that on those dates, the securities required for making the pay-in were not available in the clients' accounts. However, AATIPL has made the pay-in successfully on their behalf, which meant that the securities for pay-in were arranged from some other sources for which no explanation has been furnished in the investigation justifying with reasons and evidence to show as to how in the absence of sufficient credit, the pay in obligation was met. Under the circumstances, based on the appreciation of material on records including the undisputed fact that securities were sold through the employees of the *Noticees* as cited above, who were not financially capable of or otherwise were not in possession of those securities which they sold and possession of those shares by them, in any case was disproportionate to their stated income clearly indicated that the securities of other

clients were utilised for the pay-in obligation of the employees of AATIPL who had sold shares. In this regard, the details of the securities of the clients as found to have been sold through the above named employees are as under:

Table No. 2

Client code	Client name	Total value of net sell trades for the period (1-Apr-16 to 10-Aug-17)	Total amount of net sell trades verified	Amount of securities sold without possessing the same
DK21	Kumar Deepak	1,34,63,88,628	1,34,40,63,404	1,19,58,41,419
RK36	Kumar Ranjit	75,07,45,984	19,04,66,684	3,50,66,856
MK11	Mukesh Kumar	1,88,10,46,533	6,77,89,919	3,86,87,311
SK24	Sanjeet Kumar	1,96,68,43,176	6,91,29,502	3,89,17,999
Total				1,30,85,13,585

It is noted from the record that Mr. Deepak Kumar and Mr. Ranjit Kumar during their deposition dated August 29, 2017 have stated that they had been working in the capacity of field boy/ peon/ pantry boy in AATIPL. They have further submitted that they had neither traded in the securities market nor had any knowledge of any trading account having been opened in their names. They also stated that they had not entered into any financial transaction with AATIPL and had not received any funds in their account except for salary. Thus, the submission of the aforesaid two employees stating that they were mere field boys / peons / pantry boys in AATIPL when seen along with the fact that such huge amounts of trading have taken place from the trading accounts opened in their names, unequivocally leads to an irresistible inference that the aforesaid two employees neither had the financial capability to execute such large volumes of trades, nor were they the actual beneficial owners of the shares which were sold in their names or from their trading accounts about which they were completely kept in dark. The admission made by the Mr. Sanjeeva Sinha, Director of AATIPL during his deposition by stating that shares of some clients (of AATIPL) were sold off through the accounts of certain employees' has further reinforced the credibility of the statements given by the two employees viz., Mr. Deepak Kumar and Mr. Ranjit Kumar. Therefore, in the absence

of anything to the contrary or any response from the *Noticees* to refute these statements, the above findings and observations are sufficient to hold that the securities sold through the accounts of the abovementioned employees belonged to other innocent clients of AATIPL.

9.2.2.Pledging of clients' securities

It was noted during the investigation that AATIPL had raised funds by way of pledging the clients' securities with Banks / FIs, viz. Axis Bank Ltd., Globe Fincap Ltd. and ECL Finance Ltd. As per the submissions made by Axis Bank Ltd., Globe Fincap Ltd. and ECL Finance Ltd. during investigation, the outstanding loan position of AAITPL against such pledge of shares as on March 31, 2017 was as under:

Table No. 3

Sl. No.	Name of the entity	Outstanding position	Stock value
1	Axis Bank Ltd.	18,549,252	37,098,504
2	Globe Fincap Ltd.	181,957,124	22,345,584
3	ECL Finance Ltd.	315,758,925	621,514,020
	Total	516,265,301	680,958,108

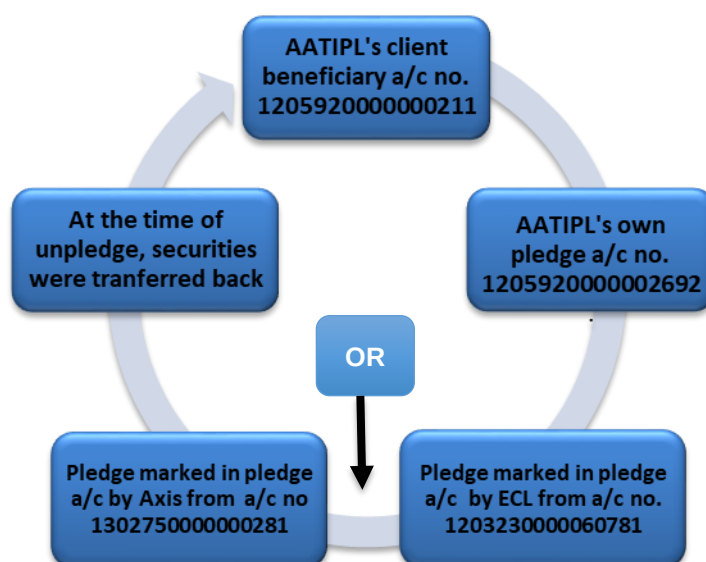
From the above table, it is observed that as on March 31, 2017, securities worth INR 68 crore were pledged by AATIPL with the aforesaid Banks / FIs and the total outstanding loans raised against such pledged shares was INR 51.63 crore. An analysis of the bank statements of AATIPL revealed several entries of receipts and payments noticed from / to the aforesaid Banks / FIs with corresponding entries in the broker's Own / Business Bank A/c nos. 909020031142977, 000705028003 14422000000372 maintained with Axis Bank Ltd., ICICI Bank Ltd. and HDFC Bank Ltd., respectively. Thus, the aforesaid finding leaves no room for doubt that AATIPL was pledging securities with the Banks / FIs on a regular basis against loan raised from those Banks / FIs.

In the light of the above finding, the next question that needs to be addressed is whether the securities that AATIPL was pledging with Banks / FIs on a regular basis, belonged to the stock broker or to its clients. Globe Fincap Ltd. in response to the query regarding the ownership of the pledged securities, had submitted that the

pledging was done by AATIPL through its demat a/c no. 1205920000000211. It is observed that the aforesaid demat a/c was the 'client beneficiary' account held in the name of AATIPL with the DP AATIPL. Since the very nature of the 'client beneficiary account' indicates that it contains the securities belonging to the clients (and this DP Account is prescribed for that purpose only), there is no doubt that the securities pledged with Globe Fincap Ltd. actually owe their origins to and belonged to the clients of AATIPL, more so when nothing has been adduced by the *Noticees* before me explaining the transfer and credit of securities in the above mentioned 'client beneficiary account' to prove to the contrary or to refute the above conclusion.

As regards pledging with ECL Finance Ltd. and Axis Bank Ltd. is concerned, it is noted during investigation that the following process was being followed by AATIPL:

AATIPL used to transfer the securities from its own client beneficiary account no. 1205920000000211 (since PoA was taken from the clients) to its own pledge demat a/c no. 1205920000002692. Thereafter, the pledge was created in the aforesaid pledge a/c by ECL Finance Ltd. and Axis Bank Ltd. While in case of ECL Finance Ltd., the pledge was marked from a/c no. 1203230000060781 (DP a/c maintained by AATIPL with ECL DP) to AATIPL's own pledge demat account no. 1205920000002692, in case of Axis Bank Ltd., the pledge was marked from a/c no. 1302750000000281 (DP a/c maintained by AATIPL with Axis DP) to AATIPL's own pledge demat a/c no. 1205920000002692. Further, at the time of un-pledge, the securities were transferred back to the source a/c i.e. client beneficiary demat a/c no. 1205920000000211. The process is also depicted in the flowchart below: -



One illustrative instance for the aforesaid process followed by AAT IPL to create pledge on clients' shares is shown below:

Table No. 4

Extract of demat a/c no. 1205920000002692

ISIN Desc.	Transaction Date	Particulars	Counter party Name	Debit/ Credit	Qty	Qty after Transaction
63 Moons Technologies Limited# New Equity Shares Of Rs.2/- After Capital Reduction	31/08/2016	OF-CR TD:907678 TX:728219 1205920000000211	AAT IPL	C	1050	1050
63 Moons Technologies Limited# New Equity Shares Of Rs.2/- After Capital Reduction	31/08/2016	Pledge Setup:02701086 CTR BO:1203230000060781 CR PSB	ECL	C	1050	1050
63 Moons Technologies Limited# New Equity Shares Of Rs.2/- After Capital Reduction	01/09/2016	Pledge Accept:02701086 CTR BO:1203230000060781 DR PSB	ECL	D	1050	1050
63 Moons Technologies Limited# New Equity Shares Of Rs.2/- After Capital Reduction	01/09/2016	Pledge Accept:02701086 CTR BO:1203230000060781 CR Pledge	ECL	C	1050	1050
63 Moons Technologies Limited# New Equity Shares Of Rs.2/- After Capital Reduction	14/09/2016	Unpledge Accept:02701086 Counter:0001 DR Pledge		D	1050	1050
63 Moons Technologies Limited# New Equity Shares	14/09/2016	OF-DR TD:612484 TX:175447 1205920000000211	AAT IPL	D	1050	0

Of Rs.2/- After Capital Reduction						
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The aforesaid illustration demonstrates that securities were transferred from 'Client Beneficiary Account' to stock broker's own pledge demat account before marking pledge of those securities in favour of ECL and subsequently return of identical quantity of securities from the pledge demat account to 'Client Beneficiary Account' after those securities were unpledged. The said *modus operandi* clearly indicate that the pledging of securities with Banks / FIs was done by AAT IPL by using the securities of its clients lying in the 'Client Beneficiary Account' of AAT IPL. There is no material on record contrary to state otherwise nor is there any explanation from the *Notices* to show the afore stated factual finding about the process flow followed by AAT IPL to pledge its clients' securities in a different light. Thus, it is held that AAT IPL has misused clients' securities by pledging the same with Banks / FIs and consequently has failed to maintain segregation between its own and clients' securities, which is a *sin qua non* that every stock broker has to follow.

As noted above, AAT IPL had pledged clients' securities and raised funds from the same. In this regard, to ascertain the position of securities that were available with AAT IPL, at the time of investigation, the Depositories were advised to provide the holding and valuation statements of all demat accounts held by AAT IPL as on August 10, 2017. Further, the value of securities as per the Register of Securities maintained by AAT IPL was obtained from NSE. It was observed that clients' securities amounting to INR 411.3 crore which were supposed to be in its possession and as recorded in the back office books of AAT IPL as on August 10, 2017, were actually not available either in the beneficiary accounts of AAT IPL or with its clearing member. Details of the same are provided in the table below:

Table No. 5

Sr. No.	Particular	Value in INR crore
1	Value of securities as per Register of Securities as on August 10, 2017 (A)	516.26
2	Value of securities as per client beneficiary (B)	93.12

3	Value of securities with Clearing member (C)	9.64
4	Value of securities with Globe Fincap Limited (D)	2.17
5	Difference A- (B+C+D)	411.3

From the above table, it is evident that clients' securities worth INR 411.3 crore which were kept by the clients with it, were not available with AAT IPL which further augments the earlier finding that AAT IPL was in fact pledging the clients' securities and /or was selling them through its employees. Therefore, it can be further held that the missing securities have been routed out of the system by AAT IPL and that is why the above noted short fall of securities worth INR 411.3 crore was noted during the investigation.

In view of the aforesaid discussions, it is noted that AAT IPL was not only knowingly not segregating its own securities from clients' securities but was also engaged in acts of misappropriating the clients' securities by selling them through the accounts of its own employees or by way of pledging those shares to Banks / FIs throughout the investigation period. The aforesaid misconduct of AAT IPL was neither a one-time matter nor an inadvertent error on the part of the stock broker, rather as the investigation reveals, AAT IPL was habitually committing such acts, in blatant disregard to the circulars issued by SEBI on this issue, from time to time. Such types of illegal actions of AAT IPL not only audaciously defies the transparency that SEBI is trying to achieve through its circular in the matter of handling of client's securities by the stock broker's, but also has caused a severe blow to the confidence of the investors in the securities market apart from seriously compromising the integrity of the securities market. Such actions on the part of AAT IPL in flagrant contraventions of SEBI's instructions / circulars have to be viewed seriously. As noted above, no explanation whatsoever has been furnished by the *Noticee* rebutting or disputing the above findings of the investigation and the allegations made in the SCN remains uncontroverted by the *Noticee* till date, thereby constraining me to record that the aforesaid acts on the part of AAT IPL have led to blatant violation of Sections 12A (a), (b) and (c) of the SEBI Act, regulations 3(a), (b), (c) and (d) of the PFUTP Regulations, circular nos. SMD/SED/CIR/93/23321 dated November 18, 1993, SEBI/MRD/SE/Cir- 33/2003/27/08 dated August 27,

2003, clause 15 of Rights and Obligations document for Stock Broker, Sub-Brokers and Clients as prescribed in Annexure 4 of SEBI Circular no. CIR/MIRSD/16/2011 dated August 22, 2011, clauses A (1), (4) and (5) of the Code of Conduct prescribed for the Stock brokers under regulation 9 of Stock Brokers Regulations. In this context, the texts of the provisions of SEBI Act, PFUTP Regulations and Stock Broker Regulations deserve to be reproduced herein below for ready reference for the purpose of appreciating the large scale implications of the contraventions caused by the afore discussed misconduct and wrong doing by the *Noticee* while the relevant circulars that have been transgressed by the *Noticee* may be referred from the below mentioned links:

Circular no. SMD/SED/CIR/93/23321 dated November 18, 1993: -

https://www.sebi.gov.in/legal/circulars/nov-1993/regulation-of-transactions-between-clients-and-brokers_19445.html

Circular no. SEBI/MRD/SE/Cir- 33/2003/27/08 dated August 27, 2003: -

https://www.sebi.gov.in/legal/circulars/aug-2003/circular-mode-of-payment-and-delivery_15954.html

SEBI Circular no. CIR/MIRSD/16/2011 dated August 22, 2011: -

https://www.sebi.gov.in/web/?file=/sebi_data/attachdocs/1314013806825.pdf#page=1&zoom=page-width,-16,792

SEBI Act

Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.

12A. No person shall directly or indirectly—

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in

contravention of the provisions of this Act or the rules or the regulations made thereunder;

PFUTP Regulation

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

(a) buy, sell or otherwise deal in securities in a fraudulent manner;

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

Code of Conduct for Stock Brokers

(4) Malpractices: *A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stockbroker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.*

With respect to the alleged contraventions made against ACPL, it has been noted in preceding paragraphs that ACPL has not traded as a client on NSE. However, as per information provided by the Clearing Member of ACPL viz. Globe Commodities Ltd., ACPL's securities worth INR 1.76 crore were lying with Globe Commodities Ltd., as on October 24, 2017. On an examination of ACPL's demat statement of a/c no. 1205920000001019, it was noted that in all the instances of credit enteries into its DP Account, the relevant shares were actually received from the demat accounts of

AATIPL and immediately thereafter, the same were transferred from ACPL's DP Account to demat account of Globe Commodities Ltd. i.e. its Clearing Member. Two such instances, are illustrated below:

Table No. 6

ISIN Desc.	Transaction Date	Particulars	Counterparty Name	Debit/Credit	Qty	Qty after Transaction
Coal India Limited	2/12/2016	OF-CR TD:479087 TX:981290 1205920000000211	AATIPL	C	501	501
Coal India Limited	6/12/2016	INTDEP-DR 53875880 CTRBO IN300966 10321370	GCL	D	501	0
Hindustan Unilever Limited Equity Shares Re. 1 Paid	24/12/2016	OF-CR TD:203308 TX:466436 1205920000000211	AATIPL	C	4000	4000
Hindustan Unilever Limited Equity Shares Re. 1 Paid	24/12/2016	INTDEP-DR 56275273 CTRBO IN300966 10321370	GCL	D	4000	0

It has already been observed in preceding paragraphs that AATIPL has misappropriated its clients' securities either by way of pledging them or selling them through employees' accounts and also by transferring such shares to the account of ACPL as cited above. The fact that ACPL has not carried out any trading itself, it is clear that securities transferred by ACPL to its Clearing Member, Globe Commodities Ltd. did not belong to ACPL but to AATIPL's clients which were transferred to ACPL's DP Account. The abovementioned transactions by ACPL point towards the complicity of ACPL in diversion of clients' securities by AATIPL, which certainly, in the absence of any justifiable explanation from the *Noticees* amounts to violation of Sections 12A (a), (b) and (c) of the SEBI Act, regulations 3(a), (b), (c) and (d) of the PFUTP Regulations, circular nos. SMD/SED/CIR/93/23321 dated November 18, 1993, SEBI/MRD/SE/Cir- 33/2003/27/08 dated August 27, 2003, clause 15 of Rights and Obligations document for Stock Broker, Sub-Brokers and Clients as prescribed in Annexure 4 of SEBI Circular no. CIR/MIRSD/16/2011 dated

August 22, 2011, clauses A (1), (4) and (5) of the Code of Conduct prescribed for the Stock brokers under regulation 9 of Stock Brokers Regulations.

9.3. Non-segregation and misutilization of clients funds by AAT IPL

9.3.1. Transfers from business account to third parties

In order to ascertain the availability of funds in AAT IPL's clients' accounts, the trial balance dated March 31, 2017, submitted by AAT IPL was examined, which showed the following summary of funds:

Table No. 7

Sr. No.	Particulars	As per trial balance dated 31/03/17 collected by NSE from AAT IPL on 17/08/17 (Total) (In crores)	As per trial balance dated 31/03/17 collected by NSE from AAT IPL on 17/08/17 (after excluding balances of employees**)
1	Total receivables		
	- Receivable from clients	69.37	57.44
	- Other receivables	64.69	64.69
2	Total Payables		
	- Payable to clients (A)	77.1	41.82
	- Other payables	20.28	20.28
3	Total cash/bank Balance (B)	0.34	0.34
4	Funds with NSE along with clearing member (C)	6.45	6.45
5	Minimum deposit with exchange (D)	1.6	1.6
6	Non-Available funds [(A-(B+C-D))]	71.91	36.63

***List of employees registered as clients:*

- | | |
|------------------------|-----------------------|
| 1. DK 21- Deepak Kumar | 3. RK36- Ranjit Kumar |
| 2. SK24-Sanjeet Kumar | 4. MK11-Mukesh Kumar |

From the above, it is observed that as on March 31, 2017, AAT IPL had an obligation to pay to the client INR 77.1 crore (as indicated by 'A' in the above table) against which it had a cash balance of INR 0.34 crore (as indicated by 'B' in the above table) with itself, INR 6.45 crore (as indicated by 'C' in the above table) with NSE along with Clearing Member. From these amounts, if the minimum deposit that is required to be kept with the Exchange of INR 1.6 crore is deducted (as indicated by 'D' in the

above table) then the stock broker had a net balance in its accounts of only INR 5.19 crore as against payable of INR 77.1 crore indicating that it had a net short fall of funds of INR 71.91 crore. The same also indicates that the funds that have been raised by pledging the clients' securities (INR 51.63 crore as discussed earlier) were not available in the bank accounts of AATIPL and not appearing in the trial balance as well. Consequently, it can be inferred that the said funds have not been used for the purpose of meeting clients' obligations against their trades in the securities market but were completely routed out of the system. Hence, in the absence of any explanation from AATIPL or its Directors to refute this inference, it can be held that AATIPL has grossly misutilised clients' funds.

In order to understand the extent of utilization of clients' funds by AATIPL, bank statements of AATIPL's and ACPL's were examined. From the examination of bank statements of AATIPL and ACPL, it was observed that AATIPL and ACPL have undertaken a number of fund transfers worth several crores with various entities who were not their clients. Such transactions were observed to be of following three types:

Table No. 8

S. No.	Transaction Type	Total Amount (INR)
a.	Transactions involving both receipts and payments with certain entities (Net Payment)	(134,361,326.00)
b.	Transactions involving receipt of funds from certain entities	95,690,000.00
c.	Transactions involving payment of funds to certain entities	(338,193,627.00)
	Total Payments*	(376,864,953.00)

** It may be mentioned that since the bank statement analysis spans from April 2011 to the date of investigation, entities with whom net transfers of less than Rs. 10,00,000 have taken place have not been considered.*

From the above table, it is clearly indicated that the total money transferred from Own/Business accounts of AATIPL and ACPL to third parties was about INR 37.69 crore. From the records, it is noted that the nature of transactions involving payments made to third parties in many cases could not be ascertained due to lack of cooperation from AATIPL and ACPL and due to limited access to third party bank

statements. However, based on the undisputable findings that have been discussed above, it can be inferred on a higher preponderance of probability basis that the funds used for making payments to third parties by AAT IPL actually belonged to its clients and had been siphoned off by AAT IPL for its own purposes and those factual findings are:

- AAT IPL had fraudulently sold its clients' securities worth INR 130.85 crore.
- AAT IPL had raised an outstanding loan amount of INR 51.63 crore against clients' securities wrongfully pledged by it with Banks / FIs.
- There was a shortfall of INR 71.91 crore in the available funds with AAT IPL.
- Absence of any justification provided by AAT IPL or ACPL or their Directors, for effecting the aforesaid fund transfers.

Thus, when the aforesaid factual findings and observations are seen holistically, I am constrained to hold that the findings of investigation and observations noted in the Enquiry Report are sufficiently established to state that the abovementioned payments made to third parties actually belonged to the clients and had been siphoned off by AAT IPL and / or ACPL, for its own purposes.

9.3.2.Cash Withdrawal

On an examination of the bank account statements of AAT IPL and ACPL, large amounts of cash deposits and withdrawals were noted during the investigation period. A summary of such cash withdrawal is given below:

Table No. 9

Sl. No.	Noticee name	Debit (withdrawal)	Credit (deposit)	Net withdrawal
1	From AAT IPL Bank a/cs	222,766,028	89,391,800	-133,374,228
2	From ACPL Bank a/cs	88,323,832	16,958,600	-71,365,232
	Total	311,089,860	106,350,400	-204,739,460

It is noted from the above table that an amount of INR 20.47 crore was withdrawn in cash by AAT IPL and ACPL since April 2011 onwards. The records show that major amounts of withdrawal had happened between the period from 2014 till 2016 i.e.

when AAT IPL was misusing clients' securities by way of pledging and also by selling clients securities through its employees' accounts. Given the peculiar facts and circumstances of the matter and the finding already arrived in the preceding paragraphs that AAT IPL and / or ACPL had misappropriated clients' funds, I am inclined to accept the findings of investigation that the money withdrawn in cash on regular basis from AAT IPL's and ACPL's bank accounts actually belonged to the clients.

9.3.3. Interest payments made to clients

On an analysis of bank account statements of AAT IPL and ACPL, it was noted that certain fixed amounts were being paid to the clients of AAT IPL on a regular basis i.e. broadly on a monthly basis. Such payments were mainly being done from Axis Business bank account no. 909020031142977 and ICICI Business bank a/c no. 000705028003 of AAT IPL and Axis bank account no. 371010200008778 of ACPL. Some of the instances of such payments are shown below:

Table No. 10

Sl. No.	Entity Name	Debit	Credit	Net	Client ID	Bank a/c from which payments were made
1	Altaf Shaikh	3,201,245		(3,201,245)	Yes	Axis bank a/c no.-909020031142977
2	Amit Arora	4,180,282	99,000	(4,081,282)	Yes	ICICI Bank a/c no.-000705028003
3	Gagan Mishra Jee	8,17,000 1,84,000		(10, 01,000)	Yes	Axis bank a/c no.-909020031142977 Axis bank a/c no.-371010200008778
4	Gagan Mishra Jee HUF	33,000 44,000		(77,000)	Yes	Axis bank a/c no.-909020031142977 Axis bank a/c no.-371010200008778
5	Kanchan Mishra	8,64,500 2,11,000		(1,075,500)	Yes	Axis bank a/c no.-909020031142977 Axis bank a/c no.-371010200008778

It is however observed from the available records that the entities whose names appeared in the bank account statements did not execute any trade during the

relevant period. Thus, the fact that certain fixed amounts were being paid to them on a regular basis even in the absence of any trading done by them indicates that the payments made to the said clients / entities on a periodic basis were in the nature of fixed interest payments. This inference is further corroborated from the submission made by Mr. Sanjeev Sinha, who during his deposition on August 10, 2017 had admitted that, the stock broker was making payment towards interest (fixed return) to its clients as per the pre-agreed terms of interest payment (monthly) entered with them. The same was also confirmed by the other Directors namely, Mr. Narayan Jee Thakur and Mr. Sujeet Kumar Sona during their respective depositions before the Investigating Authority. Under the circumstances, the allegation that AATPL was running a fixed income scheme for some of its clients stands pre-ponderously established, which was being done by AATPL and ACPL in violation of Rule 8(3)(f) of the Securities Contracts (Regulation) Rules, 1957 which clearly prohibits undertaking such activities by the stock broker. The text of the aforesaid Rule is reproduced below, perusal of which shows that the rule specifically prohibits that a stock broker shall not be involving in business fastening or creating any personal financial liability. Further, after having already established earlier that AATPL and ACPL have misappropriated clients' funds, based on the corroborative materials available on record and without any defense from the *Notices* to the contrary, I am left with no option but to observe that such interest payments were in all probability being done out of the misappropriated funds of other clients.

Securities Contracts (Regulation) Rules, 1957

Qualifications for membership of a recognised stock exchange.

8. The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:

...

3. No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if—

...

(f) he is engaged as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability unless he undertakes on admission to sever his connection with such business.

9.3.4.Payment to related parties

Upon analysis of various bank statements of AAT IPL and ACPL, it is also noticed that AAT IPL and ACPL had transferred a net amount of INR 32.62 crore during the period of investigation to their related entities and Directors. Some such transactions that were observed are illustrated as below:

Table No. 11

Sl. No.	Entity names	Debit	Credit	Net Funds paid	Bank Details
1	Aadya Finsec Limited (PAN-AAHCA0895R) (Group Company)	2,990,000.00		(2,990,000.00)	AAT IPL ICICI-000705028003
		7,470,000.00		(7,470,000.00)	AAT IPL Axis-909020031142977
	Total (A)	10,460,000.00		(10,460,000.00)	
2	Aadya Commodities Private Limited	22,001,786.59	9,068,000.00	(12,933,786.59)	AAT IPL Axis-909020031137920
		1,961,300.00		(1,961,300.00)	AAT IPL HDFC-14422000000365
		2,067,000.00	199,000.00	(1,868,000.00)	AAT IPL HDFC-14422000000372
			940,000.00	940,000.00	AAT IPL ICICI-705010268
		81,553,000.00	1,003,642.66	(80,549,357.34)	AAT IPL ICICI-000705028003
		13,945,100.00	7,594,700.00	(6,350,400.00)	AAT IPL Kotak-02082000001819
		262,291,082.00	219,817,800.00	(42,473,282.00)	AAT IPL Axis-909020031142977
	Total (B)	383,819,268.59	238,623,142.66	(145,196,125.93)	
3	Tri-Deep Leasing and Finance Ltd (PAN-AABCT9035G) (Group Company)	10,000,000.00	12,500,000.00	2,500,000.00	AAT IPL Axis-909020031137920
			1,000.00	1,000.00	AAT IPL DCB-04621600000514
		125,000.00		(125,000.00)	AAT IPL ICICI-000705011161
		87,600,000.00		(87,600,000.00)	AAT IPL ICICI-000705028003
		955,500.00	3,250,000.00	2,294,500.00	AAT IPL Kotak-02082000001819
		397,986,000.00	381,973,000.00	(16,013,000.00)	AAT IPL Axis-909020031142977
			2,000,000.00	2,000,000.00	AAT IPL Axis-371010200008778

	Total (C)	496,666,500.00	399,724,000.00	(96,942,500.00)	
4	Shubhshree Portfolios Private Limited (PAN-AAICS8132L) (Group Company)	1,300,000.00		(1,300,000.00)	AAT IPL ICICI-000705028003
		1,500,000.00		(1,500,000.00)	AAT IPL Axis-909020031142977
	Total (D)	2,800,000.00		(2,800,000.00)	
5	Sujeet Kumar Sona (Director of AAT IPL)	272,771.20		(272,771.20)	AAT IPL ICICI-000705011161
		673,000.00		(673,000.00)	AAT IPL Kotak-02082000001819
		142,500.00	49,150.00	(93,350.00)	AAT IPL Kotak-8111112414
		311,875.00		(311,875.00)	AAT IPL Axis-909020031142977
	Total (E)	1,400,146.20	49,150.00	(1,350,996.20)	
6	Vandana Sinha (Director of ACPL)	4,300,000.00		(4,300,000.00)	AAT IPL Axis-909020031137920
		6,800,000.00	2,315,000.00	(4,485,000.00)	AAT IPL ICICI-705010268
		1,900,000.00	-	(1,900,000.00)	AAT IPL ICICI-000705011161
		4,375,000.00	6,900,000.00	2,525,000.00	AAT IPL ICICI-000705028003
		850,000.00		(850,000.00)	AAT IPL Axis-371010200008778
		200,000.00		(200,000.00)	AAT IPL HDFC-14428190000044
		2,383,546.12		(2,383,546.12)	AAT IPL ICICI-000705026747
		1,500,000.00		(1,500,000.00)	AAT IPL Kotak-02082000001819
		21,050,000.00		(21,050,000.00)	AAT IPL Axis-909020031142977
	Total (F)	43,358,546.12	9,215,000.00	(34,143,546.12)	
7	Sanjeeva Kumar Sinha (Director of AAT IPL)	7,506,221.91		(7,506,221.91)	AAT IPL Axis-909020031137920
		4,460,228.00	150,000.00	(4,310,228.00)	AAT IPL HDFC-14422000000365
		120,000.00		(120,000.00)	AAT IPL HDFC-14422000000372
		14,015,000.00		(14,015,000.00)	AAT IPL ICICI-705010268
		8,563,754.00		(8,563,754.00)	AAT IPL ICICI-000705011161
		12,483,012.00	4,450,000.00	(8,033,012.00)	AAT IPL ICICI-000705028003
		5,970,000.00		(5,970,000.00)	AAT IPL Axis-909020031142977
	Total (G)	53,118,215.91	4,600,000.00	(48,518,215.91)	
8	Sanjeeva Kumar Sinha & Sons (HUF) (PAN-AATHS0938J) (Shareholder of ACPL)	1,750,000.00	600,000.00	(1,150,000.00)	AAT IPL ICICI-705010268
		300,000.00		(300,000.00)	AAT IPL ICICI-000705011161
			4,000,000.00	4,000,000.00	AAT IPL ICICI-000705028003
	Total (H)	2,050,000.00	4,600,000.00	2,550,000.00	
9	First Milestone Infrastructure Pvt. Ltd. (PAN-AABCF7418F) (Group Company)		4,850,000.00	4,850,000.00	AAT IPL Kotak-02082000001819
		5,200,000.00		(5,200,000.00)	AAT IPL Axis-909020031142977

	Total (I)	5,200,000.00	4,850,000.00	(350,000.00)	
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	Net (A+B+C+D+E+F+G+H+I)	998,872,676.82	661,661,292.66	(337,211,384.16)	
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From the above table, apart from transactions of AAT IPL and ACPL with their group companies, I note that Mr. Sujeet Kumar Sona who is a Director of AAT IPL has received a net amount of INR 13.50 lakh from AAT IPL while Ms. Vandana Sinha who is a Director of ACPL has received a net amount of INR 3.41 crore from AAT IPL. Thus, significant amounts are noticed to have been paid to the related entities and Directors of AAT IPL and ACPL without assigning any reasons for making such payments. It has already been held and demonstrated in this order as to how AAT IPL and ACPL have misappropriated clients' funds and securities. Thus, in the given facts and circumstances of the case where no explanation has been forthcoming from either AAT IPL and ACPL or their directors either to refute the allegations or to explain their stand with supporting evidence, based on preponderance of probabilities, I have all the *bona fide* reasons to draw an inference that the net funds transferred (INR 32.62 crore) to related parties and Directors by AAT IPL and ACPL as seen above, actually belonged to the clients which were siphoned off by AAT IPL and ACPL.

9.3.5. The aforesaid discussions strongly indicates that not only there was fund shortage across all bank accounts of AAT IPL, but also the funds that were raised by AAT IPL and ACPL by misappropriating clients' securities either by way of selling them through their employees or by pledging of clients' securities with Banks / FIs, have been routed out of the system by their very acts of non-segregation and misappropriation of clients' funds in all likelihood, either by transferring the funds to third parties or to related parties or to the Directors and also by withdrawing the funds in cash to make interest payment to certain clients as per pre-agreed terms entered with those clients. Thus the pattern of funds flow and the intended recipients of such funds, unequivocally shows that AAT IPL and ACPL have been habitually misutilising the securities and funds of the clients for their own selfish purposes other than that for the benefit of their clients.

I note that the measures taken by SEBI by issuing various circulars as noted earlier are intended to increase transparency in clients' fund management by the stock brokers. The funds in the client's accounts as per SEBI's instructions cannot be applied for any purpose other than what is permissible under SEBI rules and regulations. The objective of prescribing to the stock brokers for opening and maintaining a separate account for keeping the client's funds is to segregate and identify those funds client wise separately and to prevent co-mingling of those funds with any other funds and to prevent misuse of such funds so that they are kept separately, beyond the reach of the stock broker and / or its employees. The aforesaid actions of AAT IPL and ACPL wherein, the stock broker is seen to be glaringly transferring the funds of clients to third parties or to its Director and related parties or to its other clients, as per their own convenience without paying any heed to the obligation to maintain separate account for the funds of its clients and for itself (proprietary account), cannot be therefore viewed leniently. Hence, I find that AAT IPL and ACPL have grossly violated 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. Further, the aforesaid acts on the part of AAT IPL and ACPL have also amounted to the violation of Sections 12A (a), (b) and (c) of the SEBI Act, regulations 3(a), (b), (c) and (d) of the PFUTP Regulations, clause 15 of Rights and Obligations document for Stock Broker, Sub-Brokers and Clients as prescribed in Annexure 4 of SEBI Circular no. CIR/MIRSD/16/2011 dated August 22, 2011 and clauses A (1), (4) and (5) of the Code of Conduct prescribed for the Stock brokers under regulation 9 of Stock Brokers Regulations. The text of aforesaid provisions of securities laws have already been reproduced above at paragraph 9.2.2 while for brevity, the contents of SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 are not being reproduced here as the same can be accessed at:

https://www.sebi.gov.in/web/?file=/sebi_data/attachdocs/1474895821251.pdf#page=3&zoom=90,-32,652.

9.4. Falsification of records

Upon examination of the bank statements of AAT IPL, it was observed that there are entries of receipts of money from Globe Fincap Ltd., indicating that the said receipts of money were out of pledge of securities given to Globe Fincap Ltd. However, on an examination of the books of AAT IPL it was observed that the said receipts of funds by way of pledge had been concealed from the trial balances and bank books submitted by AAT IPL and no details of funds received from Globe Fincap Ltd. by way of pledging of client securities were appearing in the trial balances or in the bank books maintained by AAT IPL. In this regard, as stated earlier no explanation has been furnished by AAT IPL for fraudulently concealing such receipt of funds against the pledged shares in its books of accounts. Hence, it has to be held that AAT IPL has falsified its records to conceal its act of pledging of clients' securities to evade Regulatory oversight as the said act of pledging clients' securities is not permitted under the extant Rules and circulars which is well known to AAT IPL.

Further, as per the findings of investigation, AAT IPL has falsified trial balances with respect to the entries relating to the debtors. For instance, as per its trial balance as on March 31, 2017 submitted to SEBI on April 19, 2017 by AAT IPL, an amount of INR 16.80 crore was appearing towards debtors whereas as per the trial balance as on March 31, 2017 submitted on August 3, 2017 by AAT IPL, an amount of INR 22.23 crore was appearing as debtors. AAT IPL has not been able to submit any clarification to justify how and why two different debtors' figures have been submitted by it with respect to its trial balance as on March 31, 2017. It has been noted in the preceding paragraphs that the available funds across all the bank accounts of AAT IPL were falling short of the amounts payable to its clients which is a fact established by records and not denied by AAT IPL at any point in time during investigation. The aforesaid fact therefore same leads to an inference that in order to hide the movement of funds (which belonged to its clients) out of the system which were primarily misused for AAT IPL's own purpose, AAT IPL has resorted to falsifying its records, thereby leading to reporting of different figures at different times with respect to its trial balance items for the same accounting year.

Moreover, it was also noted at the time of investigation that certain entries relating to AAT IPL's Axis Business Bank a/c no. 909020031142977 were observed to have been falsified in its bank books, for instance, the cash withdrawal entries from the said account were concealed by AAT IPL from its Axis business account maintained as part of its books of account. I note that AAT IPL has not provided any explanation with respect to the concealment of such cash withdrawals, hence, I have to hold that the allegation of falsification of records to conceal cash withdrawals from its bank account stands established.

The aforesaid act of AAT PIL indulging in falsification of its accounts and records has led to the violation of the provisions of Sections 12A (a), (b) and (c) of the SEBI Act, regulations 3(a), (b), (c) and (d) of the PFUTP Regulations and clauses A (1), (4) and (5) of the Code of Conduct specified in Schedule II of Regulation 9 of the Stock Brokers Regulations. For ready reference, the text of the aforesaid provisions has been reproduced in preceding paragraphs.

9.5. Failure to carry out running account settlement

As per the information available in SCORES, the total number of complaints received against AAT IPL were 1975 which mainly pertained to non-receipt of funds and securities, while for ACPL, the total number of complaints were 17. Considering that there was such large amount of investor complaints against AAT IPL and ACPL regarding non-settlement of securities and funds which are still pending for redressal, it is clear that AAT IPL and ACPL have failed to carry out running account settlement as mandated under the extant regulations and circulars issued by SEBI. 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, as noted above, AAT IPL and ACPL have failed to settle funds and securities of its clients. It is pertinent to note that by not receiving the statement of account on time as stipulated by 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 unauthorised trading by employees, authorized persons, etc. of the

stock broker from their accounts. Clients are entitled to receive the settlement statement periodically as per their preference. This 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 on any pretext. I note that the aforesaid circular was issued with a view to instill greater transparency and discipline in the dealings between the clients and the stock brokers and to protect the interests of investors in the securities market. The objective of the mandatory provisions of the circular is to keep the investor informed and updated about his/her account, so as to curb any misutilisation of funds or securities belonging to the clients, thereby safeguarding the integrity of the market which in the instant case, has been blazingly disregarded by AAT IPL and ACPL. Hence, I find that the above acts of omission by and on behalf of AAT IPL and ACPL causing grievances to large number of clients have been committed in violation of clause 12 of SEBI circular no. MIRSD/SE/Cir-19/2009 dated December 3, 2009 and clause 33 of Rights and Obligations document prescribed for Stock Broker, Sub-Brokers and Clients as specified in Annexure 4 of the SEBI circular no. CIR/MIRSD/ 16/2011 dated August 22, 2011. Reference to circular dated August 22, 2011 has been given in the preceding paragraphs while SEBI circular no. MIRSD/SE/Cir-19/2009 dated December 3, 2009 can be accessed here:

https://www.sebi.gov.in/web/?file=/sebi_data/attachdocs/1289365664189.pdf#page=1&zoom=page-width,-16,792

9.6. Non-disclosure of demat accounts

As per the findings of the investigation, AAT IPL has not reported the following CDSL accounts to NSE:

Table No. 12

DP Id	Depository	Account no.	DP Name
11000010	CDSL	22760	Indian Clearing Corporation Limited
11000011	CDSL	17894	National Securities Clearing Corporation Ltd.
12020600	CDSL	19714	Globe Capital Market Limited
12020600	CDSL	762767	Globe Capital Market Limited
12032300	CDSL	890824	Edelweiss Securities Limited
12059200	CDSL	3016	Amrapali Aadya Trading & Investment Pvt. Ltd.

12059200	CDSL	3113	Amrapali Aadya Trading & Investment Pvt. Ltd.
12059200	CDSL	3128	Amrapali Aadya Trading & Investment Pvt. Ltd.
12059200	CDSL	12198	Amrapali Aadya Trading & Investment Pvt. Ltd.
12059200	CDSL	29771	Amrapali Aadya Trading & Investment Pvt. Ltd.
12059200	CDSL	29784	Amrapali Aadya Trading & Investment Pvt. Ltd.
12059200	CDSL	209803	Amrapali Aadya Trading & Investment Pvt. Ltd.
16014800	CDSL	40878	Il&FS Securities Services Limited
16014800	CDSL	40882	Il&FS Securities Services Limited

The aforesaid act of non-disclosure of demat accounts to NSE by AAT IPL is also in contravention of provision specified under SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016. Reference of the circular has been made in preceding paragraphs.

9.7. Non-redressal of investor grievance

As per information received from various Exchanges, the summary of the total complaints received till March 15, 2018 was as under:

Table No. 13

Entity	No. of Claims	Claim value (INR in crore)	Compliant Against
NSE	1850	167.39	AAT IPL- Stock Broker
BSE	547	60.2	AAT IPL- Stock Broker
MCX	361	4.56	ACPL-CD Broker
CDSL	168	2.83	AAT IPL-DP
Total	2926	234.98	

It is pertinent to note that majority of the above cited complaints have been received between August 2017 till March 2018. In this regard, I find that since the abovementioned complaints have remained pending unaddressed by the *Notices* for an unreasonably long time, it is clear that AAT IPL and ACPL have miserably failed to address investors' grievances having implications of more than INR 234 crore to the investors. In this connection, one must appreciate that speedy and effective redressal of grievances is an important hallmark for the healthy and steady development of the securities market. If investors do not get replies to their grievances or their dues from the stock broker on time / expeditiously, it leads to frustration and they may get discouraged to invest any more in the securities market out of such frustrations and hardships. This may, therefore, adversely affect

the growth of 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 default to redress investors' grievances in question had continued unabated for a considerable period of time, well beyond the time period of one month prescribed under the applicable regulations and circulars. This is a blatant violation of law and I find that AATIPL and ACPL by taking no effective steps towards redressal of thousands of grievances / complaints received by them, have violated the provision of SEBI circular no. CIR/MRD/ICC/30/2013 dated September 26, 2013 and regulation 9 (e) of SEBI (Stock Brokers and Sub- Brokers) Regulations, 1992, which states as follows:

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;

SEBI circular no. CIR/MRD/ICC/30/2013 dated September 26, 2013 can be accessed at:

https://www.sebi.gov.in/web/?file=/sebi_data/attachdocs/1380197235076.pdf#page=1&zoom=page-width,-15,842

10. To sum it up, I observe that the information and data gathered at the time of investigation unequivocally bring to light the various flagrant lapses noticed from the way both AATIPL and ACPL were operating their broking operations and managing their clients' funds and securities, including the way they have indulged into falsification of records and deliberate non-redressal of investors' grievances. Further, the violations committed by AATIPL and ACPL as discussed at length in the foregoing paragraphs are undoubtedly grave in nature which have been continuously committed for a considerable period of time. Needless to emphasise that a stock broker being a vital securities market intermediary, is strictly prohibited from

indulging in any act detrimental to the investors' interest or which leads to interference with the fair and smooth functioning of the market. A stock broker is required to maintain high standards of integrity, promptitude and fairness in the conduct of his business dealings, and shall have to ensure that its interest is not in conflict with the interest of its clients. In the given factual situation, AAT IPL and ACPL have not regularly only failed to fulfil their avowed statutory duty towards their clients, be it redressing their grievances or settling the funds due to their clients, but have gone to the extent of misutilising their clients' funds and securities and misappropriating them for their own purpose. The gravity of lapses and contraventions of the statutory provisions committed by AAT IPL and ACPL, as alluded at length in preceding paragraphs, can also be gauged from the fact that AAT IPL has been expelled from NSE since October 11, 2017 by declaring it as a defaulter while ACPL has been expelled from MCX with effect from August 6, 2018. 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. Since the conduct of AAT IPL and ACPL, is not in the interest of investors in the securities market, I am of the view that cancellation of certificate of registration, as recommended by DA, in the facts and circumstances of the case would meet the ends of justice.

Directions

11. 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 the following *Notices*:

Sl. No.	Noticee	Registration No. -
1	Amrapali Aadya Trading & Investment Pvt. Ltd.	Registration No. - INE231183436, INF231183436, INB231183436, INF011183432, INB011183432, INF261183439 and INB261183439
2	Aadya Commodities Pvt. Ltd.	INZ000028637

12. The Order shall come into force with the immediate effect.

13. A copy of this order shall be forwarded to Amrapali Aadya Trading & Investment Pvt. Ltd. and Aadya Commodities Pvt. Ltd.

Date: November 14, 2022

Place: Mumbai

**S. K. MOHANTY
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**