WTM/AB/SEBI/MIRSD/NRO/02/2020-21

SECURITIES AND EXCHANGE BOARD OF INDIA

EX PARTE–AD-INTERIM ORDER

UNDER SECTIONS 11(1), 11(4), 11B AND 11D OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH REGULATION 35 OF SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008.

IN RESPECT OF:

Noticee no.	**Noticee Name**	**PAN No.**
1.	Modex International Securities Limited	AAACM2105K
2.	Mr. Dharmendra Kumar Arora	ABEPA0955B
3.	Mr. Pavan Kumar Sachdeva	AAZPS4975R
4.	Mr. Ajay Jain	AGXPJ1124B
5.	Mr. Parminder Singh Kindra	AAIPK2244G
6.	Mr. Sanjay Mohan Uniyal	AACPU2128H
7.	Ms. Sarika Chawla	AFVPC0852J
8.	Mr. Sharda Gupta	AAKPG7214J
9.	Mr. Vikram Duggal	AHTPD5588N
10.	Mr. Suresh Agarwal	CKAPA4494A

(The aforesaid entities are hereinafter referred to by their respective names / serial numbers or collectively as "the Noticees")

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1. Modex International Securities Limited (hereinafter referred to as "**MISL"/ "Stock Broker"/ "Broker"/ "Trading Member"**) registered with SEBI as a stock broker with registration number INZ000211434. MISL is a member registered with

National Stock Exchange of India Ltd. (hereinafter referred to as "**NSE"**) and BSE Ltd. (hereinafter referred to as "**BSE"**) in Capital Market segment, Future and Option (F&O) segment and in Currency Derivatives segment. Further, MISL is a Depository Participant (DP) of Central Depository Services Limited (CDSL) with registration number IN-DP-205-2016.

2. As a part of offsite supervision, NSE observed mismatches and inconsistencies between the security balances reported by MISL in its monthly & weekly client securities balances submissions as on November 29, 2019 with the Depository Participant records and Clearing members' submissions/holdings with Clearing Corporation. Accordingly, an inspection was conducted by NSE for the period from March 01, 2019 to December 11, 2019. During inspection, it was observed that MISL has posted Journal Vouchers/manual adjustment entries in ledgers/Register of Securities (RoS) of clients, respectively. Therefore, to determine the assets and liabilities of MISL along with the value of securities/funds potentially misappropriated by the MISL, forensic audit of MISL was also got conducted by NSE for the period April 01,2017 to January 24,2020. During the course of the Forensic Audit, it was observed that MISL had recorded incorrect entries in the back office register of securities which resulted misrepresentation of the security balances. In order to ascertain the factual securities balances as on January 24, 2020, an exercise was undertaken by the Forensic Auditors wherein adjustment entries were rectified and computed the corrected securities holdings per RoS as on 24 January 2020.

3. On the basis of forensic report submitted by the forensic auditor appointed by it, NSE submitted its report (hereinafter referred to as "**NSE Report**") to SEBI. NSE has also submitted a copy of the forensic audit report to SEBI. The following major violations by MISL have been observed in the NSE Report:

A. Non availability of clients' securities:

(i) NSE Report states that on verification of the back office securities holding of MISL and securities available in its beneficiary accounts/with Clearing Members/Clearing Corporation as on January 24, 2020, shortfall of client's securities amounting to Rs. 95.29 crore was observed. The details of non-availability of securities are as under:

Shortfall of clients securitiesas on January 24, 2020 *(Amount in crore)*		
Sr. No.	**Particulars**	**Amount**
1	Value in client accounts with positive securities balances	233.02
2	Less: Disputed securities holdings not payable#	46.30
3	**Net payable to clients with Positive securities holdings = (1)- (2)**	**186.72**
4	**Total value of securities available (4.1+4.2+4.3) = 2**	**104.24**
4.1	Value of securities per client beneficiary/client collateral/Client Unpaid Securities Accounts/Pool accounts	3.40
4.2	Value of securities per Own beneficiary accounts	0.23
4.3	Value of securities with NCL /Clearing Members	100.61
	Securities available with MISL and CMs, but not recorded in ROS	(12.81)
	Securities not available with MISL and CMs as on January 24, 2020	**95.29**

(ii) Out of Rs. 233.02 crore, securities holdings of seven (7) clients worth Rs. 46.30 crore in three scrips- Dollar Industries Limited (ISIN - INE325C01035), Kama Holdings Limited (ISIN-INE411F01010) and Omaxe Limited (ISIN-INE800H01010) are not payable to them. These securities do not belong to those seven clients and were transferred by MISL to their demat accounts through demat account of its group company Modex Commodities Trade Private Limited (MCTPL). This is evidenced from demat account statements of MISL, MCTPL and those seven clients provided by MISL. Details are as under:

Sr, No.	Client Code	Client Name	ISN	Security Name	Quantity	Price (RS.)	Amount (Crore)
1	MX725	Indervir Singh Juneja	INE325C01035	Dollar Industries Limited	80,000	155	1.24
2	MX750	SharadSubramanyan	INE325C01035	Dollar Industries Limited	78,000	155	1.21
3	MX550	VasantSubramanyan	INE411F01010	Kama Holdings Limited	25,000	5,557	13.89
4	MX750	SharadSubramanyan	INE411F01010	Kama Holdings Limited	15,000	5,557	8.34
5	MX902	T K Ramasubramanyan And Sons	INE411F01010	Kama Holdings Limited	6,500	5,557	3.61
6	MX951	KiranSuri	INE411F01010	Kama Holdings Limited	6,000	5,557	3.33
7	MX845	Last Peak Data Private Limited	INE411F01010	Kama Holdings Limited	5,600	5,557	3.11
8	MX814	Karan Kumar	INE411F01010	Kama Holdings Limited	5,500	5,557	3.06
9	MX725	Indervir Singh Juneja	INE411F01010	Kama Holdings Limited	2,291	5,557	1.27
10	MX750	SharadSubramanyan	INE800H01010	Omaxe Ltd	150,000	155	2.33
11	MX725	Indervir Singh Juneja	INE800H01010	Omaxe Ltd	149,500	155	2.32
12	MX845	Last Peak Data Private Limited	INE800H01010	Omaxe Ltd	100,000	155	1.55
13	MX550	VasantSubramanyan	INE800H01010	Omaxe Ltd	35,000	155	0.54
14	MX951	KiranSuri	INE800H01010	Omaxe Ltd	31,000	155	0.48
						Total	**46.30**

(iii) Details of shortfall of client's securities is as under:

(a) In 288 scrips, the shortfall in clients' securities available with MISL and its CMs is Rs. 95.29 crore;

(b) In 66 scrips, the securities holdings of Rs. 9.93 crore available with MISL and its CMs are in excess of securities holdings of clients as per corrected RoS;

(c) The securities of Rs.2.88 crore for 61 scrips are available with MISL and its CMs, but are not recorded in the corrected register of securities.

(iv) In view of the above, MISL is in *prima facie* violation of SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993, SEBI Circular No SEBI/MRD/Policy/AT/Cir- 19/2004 dated April 21, 2004, SEBI Circular No. MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008 and SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

B. Improper use of clients' funds:

(i) NSE Report observes that MISL misappropriated securities and funds through following modus operandi:

(a) MISL had collected investments (securities/funds) from certain clients with commitment of periodic payment as returns on their investment. These clients were mostly under MISL's branch code VD and VD2 or client code starting with "MX". VD is the abbreviation of Mr. Vikram Duggal (former director of MISL from 13 January, 2012 till 14 October, 2019).

(b) MISL invested such funds/securities in F&O segment that resulted in net F&O loss. Since, MISL had collected investments from the clients on periodic payment commitment, MISL could not recover the F&O losses from those customers. MISL met its obligations pertaining to F&O losses and periodic payments by selling clients 'securities.

(ii) The client's securities were sold majorly through10 client accounts listed in Table below:

List of 10 client accounts alleged to be misused by MISL			
Sr. No.	Client Code	Client Name	Remarks
1	1AP234	Ms. PadmavathiAddanki	Group 1 – Potentially connected to MISL
2	1AP1	Mr. Srinivasa Rao Addanki	
3	MX941	Ms. JananiSubramanyan	Group 2 - Interrelated companies
4	MX845	M/s. Last Peak Data Private Limited	
5	MX914	M/s. Last Peak Solutions Private Limited	
6	MX750	Mr. SharadSubramanyan	
7	MX895	M/s. Taxation Services Syndicate Private Limited	
8	MX550	Mr. VasantSubramanyan	
9	MX725	Mr. Indervir Singh Juneja	-
10	1AP176	Mr. Sasi Kumar Sonena	-

(iii) Analysis of fund flow for client accounts in financial ledgers showed potential misappropriation of funds as under:

(a) During the period of forensic audit, as per MISL's books, it had received net cash settlement of Rs. 126.31 crores from Exchanges (NSE/BSE) against sale and purchase of clients' securities.

(b) However, during the period of forensic audit, MISL had received net sum of Rs. 9.98 crore from its clients.

(iv) From (a) and (b), it is evident that MISL had not transferred sales proceeds of Rs. 126.31 crores received from Exchanges to its clients.

(v) Further, per bank statements and balance confirmations received from bank, MISL has a fund shortage of Rs. 48.73 crore as on January 24, 2020. This indicates that the net sum of Rs. 9.98 crores received from clients have also

been potentially misappropriated in addition to the sales proceeds of Rs. 126.31 crores not transferred to the clients.

(vi) Thus, total potential fund misappropriation by MISL is Rs. 136.29 crore. A summary of potential fund misappropriation segregated in VD and Non-VD clients is presented in below Table:

Potential misappropriation of funds by MISL*(Amount in Rs. crores)*

		Cash settlement for clients			Fund flow to/from clients			Misappropriation of funds
Sr. No.	Particulars	Purchase	Sale	Net sale	Payment	Receipt	Net inflow	
		(A)	(B)	(C) = (B-A)	(D)	(E)	(F) = (E-D)	(G) = (C+F)
1	VD Group	97.40	226.21	128.81	101.95	92.28	(9.67)	119.14
2	Non-VD	522.92	520.42	(2.50)	391.40	411.05	19.65	17.15
	Total	**620.32**	**746.63**	**126.31**	**493.35**	**503.33**	**9.98**	**136.29**

(vii) In view of the above, MISL is in *prima facie* violation 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.

C. Shortfall in funds available with MISL:

(i) As per NSE Report, as of January 24, 2020, shortfall in funds available with MISL is Rs. 79.61 crore, which comprises creditors of Rs. 30.63 crore, net overdraft balance with banks of RS. 49.09 crore and margin of Rs. 0.11 crore with BSE, as shown in the following table:

Sr. No.	Particulars	Amount in crore
1	Creditors as on January 24, 2020	102.49
2	Less: Creditors considered good for set-off against securities receivable from them	71.86
3	**Net creditors**	**30.63**

4	Add: Security Deposit with Axis Bank	(0.10)
5	Add: Bank Balance as on February 17, 2020 – Axis Bank (Overdraft)	41.98
6	Add: Bank Balance as on February 17, 2020 – IndusInd (Overdraft)	7.27
7	Add: Bank Balance as on January 24, 2020– Others	(0.06)
8	Add: Cash Margin with NSE as on February 17, 2020	-
9	Add: Cash Margin with BSE as on February 19, 2020	(0.11)
10	**Shortfall in available funds on 24 January 2020**	**79.61**

(ii) In view of the above, MISL is in *prima facie* violation 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.

D. Misrepresentation of books and accounts:

I. Incorrect adjustment in RoS –

(i) NSE Report states that, in the accounts of 118 clients, there is a negative securities holding of Rs. 113.03 crore in 323 scrips as on January 24, 2020. This indicates that securities of other clients were sold to meet the obligation of these 118 clients**.**

(ii) Analysis of top 16 clients with negative securities holdings (i.e. securities recoverable from them) of Rs. 111.12 crore in 250 scrips as on January 24, 2020 showed that MISL had recorded incorrect manual adjustments to knock off the deficit of Rs. 111.12 crore. The manual adjustments are of the following nature:

(a) *Manual margin adjustments of Rs. 116.65 crore*– were recorded under Margin option in the ERP to inflate the securities holdings of those16 clients

in the F&O market. These were subsequently transferred to Cash Market and sold. These entries were recorded to manage the sale of securities of other clients through these 16 client accounts.

(b) *Manual transfer adjustments of Rs.6 crore*– were similarly recorded in those 16 *client* accounts to reduce their security holdings against purchases for other clients one through these accounts. This was done to manage those clients whose securities were earlier sold through these 16 accounts and have subsequently, demanded transfer of securities from MISL to their demat accounts or executed sale for their securities holdings.

(iii) A summary of the manual adjustments for top 16 clients with negative securities holdings of Rs. 111.12 crore is presented in the following table:

Top 16 clients with negative securities holdings as on January 24,2020*(Amount in Rs. crore)*

				Potential incorrect adjustments			
Sr. No.	Client Code	Client Name	Closing balance per ROS Holding as on 24 January 2020 (MISL's books)	Manual margin adjustments to knock off sales	Manual transfer adjustments to knock off purchases	Other Adjustments	Corrected ROS as on 24 January 2020
1	MX750	Sharad Subramanyan	-	23.02	(1.03)	0.74	(22.73)
2	MX550	Vasant Subramanyan	-	22.31	(2.94)	(0.13)	(19.24)
3	MX725	Indervir Singh Juneja	-	18.46	(0.61)	(0.13)	(17.72)
4	MX914	Last Peak Solutions Private Limited	-	14.08	(0.46)	(0.27)	(13.35)
5	MX845	Last Peak Data Private Limited	-	9.34	(0.03)	(0.10)	(9.21)
6	MX941	Janani Subramanyan	0.02	9.46	(0.83)	(0.37)	(8.28)
7	MX895	Taxation Services Syndicate Private Limited	-	5.78	-	-	(5.78)
8	1AP234	Padmavathi Addanki	-	3.72	-	-	(3.72)

9	S472	Sudhir Power Limited	-	2.16	-	1.25	(3.41)
10	1AP176	Sasi Kumar Sonena	-	3.18	-	-	(3.18)
11	1AP1	Srinivasa Rao Addanki	-	2.89	(0.10)	-	(2.79)
12	N106	Nagender	0.24	1.24	-	(0.84)	(0.64)
13	MX865	Parshotam Lal Kapur	-	0.51	-	-	(0.51)
14	R290	Rahul Mohindra	-	0.23	-	-	(0.23)
15	R193	Rohit Kumar	-	0.17	-	0.02	(0.19)
16	KV1	Virendar Kumar Verma	-	0.10	-	0.04	(0.14)
		Total	**0.26**	**116.65**	**(6.00)**	**0.21**	**(111.12)**

II. Other incorrect adjustments in RoS:

As per NSE Report, review of RoS transaction ledger for the Review Period showed 21 transactions in 13 client accounts, where the quantity has been deleted or reduced from delivered/received quantity. This led to change in total securities holdings of those clients in MISL's books by Rs. 23.16 crore in absolute terms. This was corrected while determination of the shortfall of Non-Pro- clients' securities holdings available with MISL.

III. Incorrect entries of payments/receipts of clients by MISL:

Comparison of Payments/receipts of clients (Rs. 10 lakhs and above) with bank statements showed:

a) In 35 transactions totaling Rs.8.87crore, bank statements showed that funds have been received from MISL's group companies, but these have been recorded in bank book as receipt from clients.
b) In one transaction, Rs. 3.05 crore received from Design Pro has been applied to client account of Spazzio Projects and Interiors Private Limited (Spazzio). There is no client account of Design Pro. This has been adjusted

from the closing balance of Spazzio in the books to compute its corrected fund balance.

IV. Incorrect adjustment in client's financial ledgers:

Analysis of financial ledgers of the client accounts for the Review Period showed following incorrect adjustments:

a) ***Bad debts write-off (Rs. 34.71 crore) –*** During financial years 2017-18 and 2018-19, MISL has written-off recoverable balances of Rs. 34.71 crores from 117 client accounts. These recoverable balances pertain to F&O losses recorded in those 117 accounts. MISL has not debited it to Profit & Loss account i.e. has not recognised loss in its financials for write-off of this recoverable amount from those 117 clients. Instead, MISL has adjusted this with balance of its Pro account, which is a balance sheet item. Thus, MISL has overstated profit in its financials by wrong accounting treatment. Further, MISL could not provide evidence of follow up or sending legal notice for recovery from those 117 clients. In 45 out of 117 client accounts, trades were allowed by MISL post write-off of their recoverable balance.

b) ***Shares/Mutual Fund adjustments (Rs. 20.74 crore)–*** During 04 January 2020 to 24 January 2020, MISL has manually recorded adjustments with narration "Adjustment of Shares [N]" to increase payables to 332 clients by Rs.103.64 crore and receivables of 18 clients by Rs. 124.69 crore. Balance amount of Rs. 20.74 crore was adjusted in Pro accounts.

c) ***Payments to/Receipts from clients wrongly adjusted*** –

i. On 19 December, 2020 and 04 January, 2020, MISL has passed rectification entries with narration "WRONGLY AMOUNT TRF [N]" to rectify payments of Rs. 18.33 crore wrongly adjusted to 7 clients and

receipts of Rs. 11.56 crore wrongly adjusted to 46 clients.

ii. An entry for wrong application of receipt from Design Plus Architecture to Spazzio was not rectified, hence, there is balancing difference of Rs. 3.05 crore under this head.

iii. Comparison of these transactions with bank statements showed that in 35 transactions, receipts from MISL's group companies (MCTPL, MCPL and MIPL) were shown as receipts from clients. These wrong adjustments were excluded while determination of the corrected balances of the clients.

d) ***Securities sold by Axis Bank (Rs. 0.16 crore) –*** On 07 January, 2020 and 09 January, 2020, as per MISL's books Axis Bank sold securities of Rs. 17.88 crores of clients to close open F&O positions. Due to misreporting by MISL to Axis Bank, securities of approx. Rs. 0.16 crore were not available in the respective client accounts. Accordingly, these could not be adjusted from the securities holdings of those clients in the RoS. However, MISL has adjusted this in the financial ledgers of those clients. Hence, these have been now excluded while computing the corrected fund balances in the client accounts. To determine the corrected ledger balances of client accounts, the potential incorrect adjustments mentioned above, were excluded from the closing balance of the client accounts. A summary of the corrected creditors/debtors is shown in the below table:

Corrected balances of clients as of 24January2020 *(Amount in Rs. crore)*					
		Trade Receivable		Trade Payable	
Sr. No.	Particulars	Count	Amount	Count	Amount

1	Corrected balances as of 24 January 2020	456	(106.28)	259	102.49

*(**Note:-** Corrected creditors of Rs. 102.50 includes 10 clients alleged to be used for misappropriation of securities. If credit balance of those 10 clients totaling Rs. 71.86 crore is excluded. Net corrected creditors to remaining 249 clients will be approx. Rs. 30.63 crore.)*

(iv) In view of the above, MISL is in *prima facie* violation of Rule 15 of Securities Contracts (Regulation) Rules, 1957 (hereinafter referred to as "**SCRR**") read with Regulation 17 of SEBI (Stock Broker) Regulations 1992 (hereinafter referred to as "**Stock Broker Regulations**").

E. Periodic payments to clients (Rs. 16.87crore):

(i) On the basis of analysis of sample financial ledgers of 78 out of 197 VD clients, it has been observed that MISL made a periodic payment totaling Rs. 16.87crore to 50 VD clients during the Review Period. In 47 out of those 50 VD clients, F&O losses of Rs. 98.60 crore was recorded during the Review Period. Further, periodic payments totaling Rs. 0.07crore were observed in one Non-VD client despite F&O losses of Rs. 2.13 crore. Details of client wise F&O loss and periodic payments of Rs. 16.70 crore made to 48 clients out of Rs. 16.87 crore to 51 clients areas under:

Sr. No.	Client code	Client Name	Client category	Net F&O Loss (Amount in crore	Periodic payments (Amount in crore)
1	MX750	Sharad Subramanyan	VD Group	(16.18)	2.06
2	MX550	Vasant Subramanyan	VD Group	(12.88)	2.19
3	MX725	Indervir Singh Juneja	VD Group	(11.23)	0.49
4	MX673	Bubbles Goyal	VD Group	(5.75)	0.62

5	MX802	Hari Om Puri	VD Group	(5.23)	0.31
6	MX845	Last Peak Data Private Limited	VD Group	(5.18)	0.69
7	MX875	Rakesh Kumar Sahni	VD Group	(4.45)	0.90
8	MX972	Jayatishree Singh	VD Group	(4.09)	0.41
9	MX895	Taxation Services Syndicate Private Limited	VD Group	(3.68)	0.67
10	MX951	Kiran Suri	VD Group	(3.03)	0.22
11	V40	Vibha Roy	Non VD Group	(2.13)	0.07
12	MX1112	Ashok Kumar Tandon	VD Group	(2.09)	0.91
13	MX814	Karan Kumar	VD Group	(1.99)	0.33
14	MX914	Last Peak Solutions Private Limited	VD Group	(1.90)	0.28
15	MX941	Janani Subramanyan	VD Group	(1.75)	0.93
16	MX929	Kamlesh Chander Mehra	VD Group	(1.71)	0.16
17	MX796	Praveen Lal Goyal	VD Group	(1.34)	0.35
18	MX958	Surinder Talwar	VD Group	(1.30)	0.38
19	MX908	Rakesh Bhargava	VD Group	(1.19)	0.21
20	K103	Kirti Pradeep Jain	VD group	(1.19)	0.33
21	MX1055	Vinod Kumar Mittal	VD Group	(1.10)	0.34
22	MX952	Nalin Aggarwal	VD Group	(0.98)	0.27
23	MX1001	Lata Bhargava	VD Group	(0.74)	0.05
24	MX1097	Ankit Sales Private Limited	VD Group	(0.68)	0.45
25	MX931	Rohini Vohra	VD Group	(0.65)	0.10
26	MX1144	Reena Singh	VD Group	(0.61)	0.12
27	MX1141	Aditi Rajgarhia	VD Group	(0.60)	0.16
28	MX946	Manjit Singh	VD Group	(0.58)	0.15

29	MX702	Raghuvansh Prasad Kashyap	VD Group	(0.55)	0.04
30	MX701	Manjeet Singh Chowdhury	VD Group	(0.50)	0.03
31	MX1027	AnkitKatyal	VD Group	(0.48)	0.15
32	MX724	Noreen Chopra	VD Group	(0.47)	0.03
33	MX722	SunitaPuri	VD Group	(0.46)	0.03
34	MX942	Vibha Khanna Rastogi	VD Group	(0.45)	0.04
35	MX642	AtulMital	VD Group	(0.45)	0.04
36	MX940	Atul Vohra	VD Group	(0.44)	0.07
37	MX1186	ParthaMitter	VD Group	(0.40)	0.10
38	MX1142	Mohan Primlani	VD Group	(0.38)	0.05
39	MX1168	JagmohanJit Singh	VD Group	(0.37)	0.14
40	MX1169	Jagdish Kaur	VD Group	(0.37)	0.27
41	MX964	Rachna Gupta	VD Group	(0.31)	0.16
42	MX1024	Alisha Anand	VD Group	(0.30)	0.06
43	MX1148	SumedhTandon	VD Group	(0.23)	0.24
44	MX1056	VickasKapur	VD Group	(0.16)	0.07
45	MX995	Rajendra Kumar Gupta	VD Group	(0.16)	0.07
46	MX955	Asha Mohan Primlani	VD Group	(0.03)	0.11
47	R260	RishikeshAgnihotri	VD group	(0.03)	0.01
48	MX865	ParshotamLalKapur	VD Group	(0.00)	0.85
					16.70

(ii) In view of the above, MISL is in *prima facie* violation of Section 12(1) of SEBI Act, 1992 read with Rule 8 (1) (f) and 8 (3) (f) of SCRR and Regulation 3 & 14(1)(a) of SEBI (Portfolio Managers) Regulations, 1993.

4. I find that MISL is a corporate entity. It does not act on its own. It has a board of directors to manage its affairs. I find that Noticee no. 2 to 10 were the directors of MISL during the period when the aforesaid *prima facie* violations were committed by MISL. Therefore, Noticee no. 2 to 10 are liable for the *prima facie* violations found to have been committed by MISL.

5. I find that MISL is a registered intermediary. It is also a listed company. It has a total 24,086 registered clients out of which 1848 are active clients. The findings of the NSE Report, indicate that there has been misuse of clients' funds and securities by the MISL and therefore, in the foregoing paras, MSIL has been found to be in *prima facie* violation of following provisions of law:

   (i) Section 12(1) of SEBI Act, 1992 read with Rule 8 (1) (f) and 8 (3) (f) of SCRR;

   (ii) Rule 15 of SCRR read with Regulation 17 of Stock Broker Regulations;

   (iii) Regulation 3 & 14(1)(a) of SEBI (Portfolio Managers) Regulations, 1993;

   (iv) Clauses A (1), (2), (3) and (4) of Code of Conduct as specified in Schedule II of Regulation 9 (f) of Stock Broker Regulations, 1992;

   (v) SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993;

   (vi) SEBI Circular No SEBI/MRD/Policy/AT/Cir- 19/2004, dated April 21, 2004;

   (vii) SEBI Circular No. MRD/DoP/SE/Cir- 11/2008, dated April 17, 2008; and

   (viii) SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

Therefore, in order to protect the interest of investors and the securities market, it is necessary to issue *ex parte ad interim* directions to the Noticees.

6. Under the above circumstances, I, in exercise of powers conferred upon me under Sections 11(1), 11(4), 11B and 11D read with Section 19 of the SEBI Act, 1992 and Regulation 35 of SEBI (Intermediaries) Regulations, 2008, by way of this *ex parte ad interim* order, hereby issue the following directions:

   (i) All Noticees are restrained from accessing the securities market and are further prohibited from buying, selling or otherwise dealing in securities, either directly or indirectly, or being associated with the securities market in any manner whatsoever, till further directions;

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

   (iii) The aforesaid Noticees are directed not to dispose of or alienate any assets, whether movable or immovable, or to create or invoke or release any interest or charge in any of such assets except with the prior permission of NSE and BSE;

   (iv) The aforesaid Noticees are directed to provide 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 to NSE and BSE but not later than 5 working days from the date of receipt of this order;

(v) Till further directions in this regard, the assets of the Noticees shall be utilized only for the purpose of payment of money and /or delivery of securities, as the case may be, to the clients/investors under the supervision of the concerned exchanges/depositories;

(vi) The depositories are directed to ensure that no debits are made in the demat accounts, held jointly or severally, of the aforesaid Noticees except for the purpose mentioned in sub-para (v) above, after confirmation from NSE/BSE;

(vii) The banks are directed to ensure that no debits are made in the bank accounts held jointly or severally by the Noticees except for the purpose of payment of money to the clients/investors under the written confirmation of NSE/BSE;

(viii) The stock exchanges shall deal with the complaints/claims of the clients against the member and may return the amount of client fund and securities to the clients and may also use assets of the Noticee no. 1 to meet clients'/exchanges'/clearing members'/clearing corporations', obligations; and

(ix) The above directions are without prejudice to the right of SEBI to take any other action that may be initiated in respect of aforesaid entities/persons.

7. The findings recorded in the order are based on the *prima facie* examination of facts and prima facie violation of securities law.

8. The present order has been passed under disciplinary proceedings against the Trading Member for the violations of the Code of Conduct and other provisions of Securities Laws, as mentioned in the order above. The observations in this order does not *ipso facto* entitle any client of the Trading Member to claim their funds,

stocks and securities, which claims are to be taken by such clients with the concerned stock exchanges/depositories in accordance with their respective bye-laws.

9. The Noticees against whom this Order is being passed may file their objections, if any, within twenty-one (21) days from the date of receipt of this Order. The Noticees are directed to submit their replies along with the supporting documents including details of payments made to clients. In the event the Noticees intend to avail an opportunity of personal hearing, they may appear before the Securities and Exchange Board of India at its Head Office at SEBI Bhavan - II, Plot No.C7, G Block, Bandra Kurla Complex, Bandra (East), Mumbai-400051 on June 26, 2020 at 02:30 PM. In the event of the Noticees failing to file replies within 21 days of receipt of this order or failing to appear before SEBI on the aforesaid date and time, the preliminary findings made in this Order and directions at para 7 above shall be deemed to be confirmed against the Noticees automatically, without any further orders.

10. This order shall come into force with immediate effect.

11. A copy of this order shall be forwarded to all the Noticees, Stock Exchanges, the relevant banks, Depositories and Registrar and Transfer Agents of Mutual Funds to ensure that the directions given above are strictly complied with.

ANANTA BARUA

Date: April 30, 2020 **WHOLE TIME MEMBER**

Place: Mumbai **SECURITIES AND EXCHANGE BORAD OF INDIA**