

SECURITIES AND EXCHANGE BOARD OF INDIA
FINAL ORDER

Under Section 12(3) of the Securities and Exchange Board of India Act, 1992
read with Regulation 27 of Securities and Exchange Board of India
(Intermediaries) Regulations, 2008

In respect of:

Name of the Noticee	Registration No.	PAN
F6 Finserve Private Limited	INB231467334 INB011467330 INF231467334 INF011467330 INE231484739	AABCF0080D

In the matter of F6 Finserve Private Limited

A. BACKGROUND

1. F6 Finserve Private Limited (hereinafter referred to as “**Noticee**”) is registered with Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”), in terms of Section 12(1) of SEBI Act, 1992 (hereinafter referred to as “**SEBI Act**”) and SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as “**Stock Brokers Regulations**”) as a Stock Broker having registration no., INB011467330 (Equity & Currency Derivative segments) and INF231467334 (Equity Derivative segment) with BSE and INB231467334 (Equity segment), INF011467330 (Equity Derivative segment) and INE231484739 (Currency Derivative segment) with NSE.

2. SEBI conducted a comprehensive inspection of the Noticee's broking activities from August 10, 2017 to August 30, 2017 for the period between April 01, 2015 and July 31, 2017 (hereinafter referred to as '**Inspection period**'). After completion of the said inspection, the inspection report was forwarded to the Noticee vide letter and email dated February 2, 2018 for its comments. However, no comments were received. Thereafter, SEBI passed an Interim Order dated May 29, 2018 under sections 11(4), 11B and 11D of the SEBI Act against the Noticee and other related parties *inter alia* restraining their access to the securities markets, prohibiting them from dealing in securities and directing them to cease and desist from undertaking any activity in the securities market. Subsequently, vide an Order dated December 14, 2018, the directions issued in the Interim Order were confirmed.
3. Considering the gravity of the violations, SEBI initiated the following proceedings based on the findings of inspection.
 - 3.1. **11B proceedings** - With respect to the same, a notice was issued to the Noticee to show cause why suitable directions under sections 11(4) and 11B of the SEBI Act should not be issued against it.
 - 3.2. **Adjudication proceedings** – As regards the same, a notice was issued to the Noticee to show cause why penalty should not be imposed on it under sections 15A(a), 15C, 15HA and 15HB of the SEBI Act and section 23D of Securities Contracts (Regulations) Act, 1956.
 - 3.3. **Enquiry proceedings** - Separately and in addition to the abovementioned 11B and adjudication proceedings, Enquiry proceedings were initiated against the Noticee under the provisions of SEBI Act, SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**"), Stock Brokers Regulations, SEBI Circulars and SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as "**Intermediaries Regulations**") and appointed a Designated Authority ("**DA**") vide an Order dated November 17, 2021 to enquire into the alleged violations by the Noticee and make a recommendation in compliance with Intermediaries Regulations.

4. The DA issued a Show Cause Notice dated May 25, 2022 (hereinafter referred to as “**SCN**”) to the Noticee which was served by way of Public notice dated August 31, 2022 in Hindustan Times (Delhi) and Gurgaon Mail. Further, the Noticee was granted an opportunity of personal hearing on September 19, 2022 vide the said notice. However, the Noticee neither replied to the SCN nor appeared for the hearing.
5. Thereafter, upon completion of the enquiry, the DA submitted an Enquiry Report dated October 13, 2022 (hereinafter referred to as “**Enquiry Report**”) wherein the DA concluded that the Noticee committed the following violations and recommended cancellation of its certificate of registration as Stock Broker: -
 - 5.1. Non-settlement of funds of inactive clients in violation of (a) clause 12 of annexure to the SEBI Circular no. MIRSD/SE/Cir-19/2009 dated December 03, 2009 (“**SEBI 2009 Circular**”) and (b) Clause 33 of Rights and Obligations documents for Stock Broker, Sub-Brokers and Clients as prescribed in Annexure 04 of the SEBI Circular no. CIR/MIRSD/16/2011 dated August 22, 2011 (“**SEBI 2011 MIRSD Circular**”).
 - 5.2. Non-segregation and misuse of clients’ funds in violation of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 (“**SEBI 1993 Circular**”).
 - 5.3. Non-segregation and misuse of clients’ securities in violation of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 (“**SEBI 1993 Circular**”).
 - 5.4. Mis-utilisation client securities by pledging in violation of Section 12A (a), (b) & (c) of SEBI Act and Regulation 3(a), (b), (c) and (d) of PFUTP Regulations.
 - 5.5. Wrong reporting of margin in violation of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011 (“**SEBI 2011 DNPD Circular**”) read with SEBI Master Circular no. CIR/DNPD/1/2012 dated January 02, 2012 (“**SEBI 2012 Circular**”) and NSE Circular no. NSE/INSP/19583 dated December 14, 2011 (“**NSE 2011 Circular**”).
 - 5.6. Non-redressal of investor grievances in violation of Circular no. CIR/MRD/ICC/30/2013 dated September 26, 2013 (“**SEBI 2013 Circular**”) and the conditions of registration as specified under Regulation 9(e) of Stock Brokers Regulations.

- 5.7. Non-submission of information in violation of Regulation 21 of Stock Brokers Regulations and Clause A (5) of the Code of Conduct for Stock Brokers as prescribed under Schedule II read with Regulation 9 of Stock Brokers Regulations and Regulation 27(ix) of Stock Brokers Regulations.
6. I also note that with effect from April 2018, the Noticee was declared a defaulter and expelled from the membership of NSE and BSE.
7. In continuation of the 11B proceedings, *vide* Order dated June 09, 2022 (“**2022 WTM Order**”), WTM passed an order against the Noticee and other related entities and held that the Noticee committed the following violations:
- 7.1. Non-settlement of funds of inactive clients;
 - 7.2. Non-segregation and misutilisation of client funds;
 - 7.3. Non-segregation and misutilisation of client securities;
 - 7.4. Misutilisation of client securities by pledging;
 - 7.5. Wrong reporting of margin;
 - 7.6. Non-redressal of investor grievances; and
 - 7.7. Non-submission of information.
8. The aforesaid adjudication proceedings were concluded by way of an Order dated October 18, 2022 (“**AO Order**”) wherein *inter alia* a penalty of INR 89 lakhs was imposed on the Noticee.
9. In this regard, I note that the allegations in the instant proceedings are exactly the same as the violations for which the 2022 WTM Order and AO Order were passed. I also note that the Noticee has not filed any appeal against the said Orders.

B. SHOW CAUSE NOTICE, REPLY AND HEARING

8. A post-enquiry Show Cause Notice dated November 04, 2022 (hereinafter referred to as “**PE-SCN**”) was issued to the Noticee, enclosing a copy of the DA report, calling upon it to show cause in terms of Regulation 27 of the Intermediaries Regulations as to why action as recommended by the DA should not be taken against the Noticee.

9. Attempts made to serve the PE-SCN through speed post and Market Infrastructure Institutions (MIIs) failed and so the PE-SCN was served to the Noticee by way of affixture on March 04, 2023. However, no reply to the PE-SCN was received. Thereafter, the Noticee was granted an opportunity of hearing on May 09, 2023 vide notice dated April 12, 2023 which was served by way of affixture on April 18, 2023. However, the Noticee failed to appear before me on the date of the hearing.
10. In this regard, I place reliance on the judgement of the Hon'ble Securities Appellate Tribunal (SAT) in the matter of Classic Credit Ltd. V. SEBI [2007] SCL 51 (SAT-MUM.), wherein it was, *inter alia*, held that, "...The appellants did not file any reply to second show-cause notice. This being so, it has to be presumed that the charges alleged against them in the show-cause notice were admitted by them.". Further, the Hon'ble SAT in the matter of Sanjay Kumar Tayal & Others vs SEBI (Appeal no. 68 of 2013 decided on February 11, 2014), had held that. "... appellants have neither filed reply to show cause notices issued to them nor availed opportunity of personal hearing offered to them in the adjudication proceedings and, therefore, appellants are presumed to have admitted charges leveled against them in the show cause notices...".
11. I note that the Noticee has been given sufficient opportunities and therefore, the principles of natural justice have been duly complied with, and I now proceed to consider the matter on merits.

C. CONSIDERATION OF ISSUES AND FINDINGS

12. I note that till date of this Order, no reply has been received from the Noticee. In view of the same, I proceed to determine the matter on the basis of the material available on record. Based on the conclusions arrived at in the DA report, the following issues are to be decided upon:
- 12.1. Whether the Noticee by its act and conduct observed during the inspection period has violated the applicable provisions of securities law from time to time, as held by the DA?
- 12.2. Whether the recommendations made in the DA report must be accepted or whether any other order needs to be passed against the Noticee?

13. In this regard, I have examined the charges against the Noticee, the DA report, the relevant provision of law and other material available on record. Having done so, I now proceed to adjudicate the charges one by one.

14. **Non-settlement of funds of inactive clients**

14.1. The relevant extracts of the applicable provisions of SEBI circulars are reproduced below:

SEBI 2009 Circular

Running Account Authorization

...

12. Unless otherwise specifically agreed to by a Client, the settlement of funds/securities shall be done within 24 hours of the payout. However, a client may specifically authorize the stock broker to maintain a running account subject to the following conditions:

...

(e) The actual settlement of funds and securities shall be done by the broker, at least once in a calendar quarter or month, depending on the preference of the client. While settling the account, the broker shall send to the client a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.

Clause 33 of Rights and Obligations document for Stock Broker, Sub-Brokers and Clients as prescribed in Annexure 4 of the SEBI 2011 MIRSD Circular

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

client and subject to such terms and conditions as may be prescribed by the relevant Exchange from time to time where the trade is executed.

14.2. During the inspection, it was observed that the Noticee had not settled funds ranging from INR 10 lakhs to 1.49 crore during the seven quarters. Further, the number of unsettled clients rose from 401 in June 2015 quarter to 891 in March 2017 quarter. The consolidated details of total number of inactive clients whose funds were not settled for the period June 2015 to March 2017, are as under:

Table no. 1

Quarter Ended	Quarter Ended	No. of UCCs whose balances have remained same on last dates of successive quarters	Inactive Not Settled (in INR)	
			Maximum Amount	Credit Balance not settled
Jun-15	Sep-15	401	24,98,956	10,06,659
Sep-15	Dec-15	535	9,74,503	66,98,402
Dec-15	Mar-16	504	9,74,503	32,28,246
Mar-16	Jun-16	287	9,74,503	26,90,921
Jun-16	Sep-16	258	1,24,093	17,71,281
Sep-16	Dec-16	886	19,97,399	1,49,09,587
Dec-16	Mar-17	891	19,97,399	1,43,31,406

14.3. I note that as per SEBI 2009 Circular, the actual settlement of funds and securities has to be done by the stock broker, at least once in a calendar quarter or in a month, depending on the preference of the client. However, it is observed from the above table that during the quarter ending June 2015 to September 2015, there were 401 clients who had a consolidated unsettled credit balance of INR 10,06,659 and towards the end of the inspection period, i.e., during the quarter ending December 2016 to March 2017 the same had

more than doubled in terms of number of clients and outstanding credit balances (running into crores) when SEBI 2009 circular specifically mandated stock broker to settle the funds of client at least once in a calendar quarter or in a month, depending on the preference of the client. Thus, the Noticee was progressively defaulting in its obligations to comply with the circular. The prudential norm of settling running accounts of clients prescribed by SEBI in the interest of investors is to mitigate the risk of misutilisation of clients' funds by a Stock Broker, thereby safeguarding the integrity of the market. I note that in the instant case, the said norms have been completely disregarded by the Noticee.

14.4. Hence, I find that the above lapses by the Noticee have been committed in violation of clause 12 (e) of SEBI 2009 circular and clause 33 of Rights and Obligations document for Stock Broker, Sub-Brokers and Clients as prescribed in Annexure 4 of the SEBI 2011 MIRSD Circular.

15. **Non-segregation and misutilisation of clients' funds**

15.1. The relevant extracts of the applicable provisions of the SEBI 1993 circular are reproduced below:

SEBI 1993 Circular

Regulation of transactions between clients and brokers

1. It shall be compulsory for all Member brokers to keep the money of the clients in a separate account and their own money in a separate account. No payment for transactions in which the Member broker is taking a position as a principal will be allowed to be made from the client's account. The above principles and the circumstances under which transfer from client's account to Member broker's account would be allowed are enumerated below.

A] Member Broker to keep Accounts: Every member broker shall keep such books of accounts, as will be necessary, to show and distinguish in connection with his business as a member –

- i. Moneys received from or on account of each of his clients and,*
- ii. the moneys received and the moneys paid on Member's own account.*

B] Obligation to pay money into "clients' accounts". Every member broker who holds or receives money on account of a client shall forthwith pay such money to current or deposit account at Bank to be kept in the name of the member in the title of which the word "clients" shall appear (hereinafter referred to as "clients account"). Member broker may keep one consolidated clients account for all the clients or accounts in the name of each client, as he thinks fit: Provided that when a Member broker receives a cheque or draft representing in part money belonging to the client and in part money due to the Member, he shall pay the whole of such cheque or draft into the clients account and effect subsequent transfer as laid down below in para D (ii).

C] What moneys to be paid into "clients account". No money shall be paid into clients account other than –

- i. money held or received on account of clients;*
- ii. such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account;*
- iii. money for replacement of any sum which may by mistake or accident have been drawn from the account in contravention of para D given below;*
- iv. a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member.*

D] What moneys to be withdrawn from "clients account". No money shall be drawn from clients account other than –

- i. money properly required for payment to or on behalf of clients or for or towards payment*

of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client;

ii. *such money belonging to the Member as may have been paid into the client account under para 1 C [ii] or 1 C [iv] given above;*

iii. *money which may by mistake or accident have been paid into such account in contravention of para C above.*

E] Right to lien, set-off etc., not affected. Nothing in this para 1 shall deprive a Member broker of any recourse or right, whether by way of lien, set-off, counter-claim charge or otherwise against moneys standing to the credit of clients account.

2. It shall be compulsory for all Member brokers to keep separate accounts for client's securities and to keep such books of accounts, as may be necessary, to distinguish such securities from his/their own securities. Such accounts for client's securities shall, inter-alia provide for the following: -

a. Securities received for sale or kept pending delivery in the market; b. Securities fully paid for, pending delivery to clients;

c. Securities received for transfer or sent for transfer by the Member, in the name of client or his nominee(s);

d. Securities that are fully paid for and are held in custody by the Member as security/margin etc. Proper authorization from client for the same shall be obtained by Member;

e. Fully paid for client's securities registered in the name of Member, if any, towards margin requirements etc.;

f. Securities given on Vyaj-badla. Member shall obtain authorization from clients for the same.

3. Member Brokers shall make payment to their clients or deliver the securities purchased within two working days of pay-out unless the client has requested otherwise. Stock Exchange shall issue a Press Release immediately after the pay-out.

4. Member Brokers shall buy securities on behalf of client only on receipt of margin of minimum 20 percent on the price of the securities

proposed to be purchased, unless the client already has an equivalent credit with the broker. Member may not, if they so desire, collect such a margin from Financial Institutions, Mutual Funds and FII's.

5. *Member brokers shall sell securities on behalf of client only on receipt of a minimum margin of 20 percent on the price of securities proposed to be sold, unless the member has received the securities to be sold with valid transfer documents to his satisfaction prior to such sale. Member may not, if they so desire, collect such a margin from Financial Institutions, Mutual Funds and FII's.*

6. *Member brokers shall issue the contract note for purchase/sale of securities to a client within 24 hours of the execution of the contract.*

7. *In case of purchases on behalf of clients, Member brokers shall be a liberty to close out the transactions by selling the securities, in case the client fails to make the full payment to the Member Broker for the execution of the contract within two days of contract note having been delivered for cash shares and seven days for specified shares or before pay-in day (as fixed by Stock Exchange for the concerned settlement period), whichever is earlier; unless the client already has an equivalent credit with the Member. The loss incurred in this regard, if any, will be met from the margin money of that client.*

8. *In case of sales on behalf of clients, Member broker shall be at liberty to close out the contract by effecting purchases if the client fails to deliver the securities sold with valid transfer documents within 48 hours of the contract note having been delivered or before delivery day (as fixed by Stock Exchange authorities for the concerned settlement period), whichever is earlier. Loss on the transaction, if any, will be deductible from the margin money of that client.*

15.2. During the inspection, it was observed that in several instances, funds received from the clients were transferred to the Business account of the Noticee, which is an overdraft account, to reduce the interest burden. In certain instances, funds received from clients were paid to other clients/ transferred to

Business account of the Noticee or paid to Pankaj Goel, Director of the Noticee.

15.3. In order to arrive at the findings of misuse of clients' funds by the Noticee, the following information/ data were gathered during the course of inspection:

15.3.1. Total funds balance available in all Client Bank Accounts.

15.3.2. Aggregate value of collaterals deposited with clearing corporations and/or clearing member.

15.3.3. Aggregate value of Credit Balances of all its clients.

15.3.4. Aggregate value of Debit Balances of all its clients.

15.4. The inspection team collected the data for 12 sample dates and the same is given below:

Table No. 2

Date	Total Fund balance available in all Client Bank Accounts (A)	Collateral deposited with clearing corporation and/or clearing member in the form of cash and cash equivalent (B)	Total Credit balance of all clients (C)	Difference between total available fund & ledger credit balance of clients $G=(A+B)-C$	% of Credit Funds Misused to Total Credit Balance
03-06-2015	15,171,641	33,525,000	98,893,568.88	(50,196,927.74)	50.76%
16-06-2015	18,845,174	33,525,000	100,187,745.40	(47,817,571.15)	47.73%
30-09-2015	3,734,796	34,925,000	94,757,700.93	(56,097,904.76)	59.20%
20-05-2015	11,870,903	33,525,000	111,876,416.05	(66,480,512.93)	59.42%
04-05-2015	10,908,199	33,525,000	100,316,801.80	(55,883,602.31)	55.71%
08-09-2016	1,927,091	59,196,107	105,904,874.94	(44,781,676.89)	42.28%
22-06-2016	3,752,865	58,196,107	114,236,967.86	(52,287,996.33)	45.77%
09-09-2016	1,055,292	59,196,107	109,606,910.02	(49,355,510.90)	45.03%
28-06-2016	5,423,280	58,196,107	139,647,386.29	(76,027,998.85)	54.44%
12-09-2016	1,233,924	58,721,107	107,627,800.76	(47,672,769.82)	44.29%
07-08-2017	36,565,338	93,325,123	201,608,271.65	(71,717,810.60)	35.57%
05-04-2017	15,134,043	92,856,107	128,780,734.50	(20,790,584.29)	16.14%

15.5. The DA report records that the negative value of “G” indicates that the Noticee has misutilised the fund of credit balance clients. The above alleged misutilisation of credit balance of clients’ fund is compared with the debit balance clients on the said dates in the following table:

Table No. 3

Date	Client fund misused (G) (Absolute value of G)	Debit balance client (D)	Funds Misused for Debit Balance Clients
03-06-2015	50,196,927.74	207,753,541.32	50,196,927.74
16-06-2015	47,817,571.15	197,476,615.82	47,817,571.15
30-09-2015	56,097,904.76	163,380,028.99	56,097,904.76
20-05-2015	66,480,512.93	195,724,080.97	66,480,512.93
04-05-2015	55,883,602.31	196,139,371.88	55,883,602.31
08-09-2016	44,781,676.89	180,572,558.21	44,781,676.89
22-06-2016	52,287,996.33	123,060,789.79	52,287,996.33
09-09-2016	49,355,510.90	181,210,362.37	49,355,510.90
28-06-2016	76,027,998.85	118,677,248.18	76,027,998.85
12-09-2016	47,672,769.82	182,366,318.76	47,672,769.82
07-08-2017	71,717,810.60	190,979,568.27	71,717,810.60
05-04-2017	20,790,584.29	197,270,584.16	20,790,584.29

15.6. The principle used for identifying whether the funds have been misused is that the total available funds i.e., cash and cash equivalents with the stock broker and with the clearing corporation/ clearing member (A+B) should always be equal to or greater than Clients’ funds as per ledger balance (C). Accordingly, the total funds of credit balance clients (“C”) shall be available either with the stock broker in the clients’ bank accounts (“A”) and/ or as collaterals deposited with clearing corporations and/ or clearing member (“B”). Therefore, A+B should never be less than C. In case A+B (as mentioned

above) is less than C, it would imply that the clients' funds have been utilized for other purposes i.e. funds of credit balance clients are being utilized either for settlement obligations of debit balance clients or for the stock brokers' own purposes.

15.7. From table no. 2, I note that there were 12 such days (on a sample basis) on which the misutilisation of the clients' funds by the Noticee is evident from the fact that the aggregate of total credit balances of the clients of the Noticee, was higher than the funds available with the Noticee. The misutilisation of the clients' funds by the Noticee as a percentage of the total credit balance of its clients as per stock broker's own records, was in the range of 16.54% to 59.42%.

15.8. Further, on comparing the misutilisation of credit balances of clients' fund with the debit balances of clients on the aforesaid 12 sample days, as depicted at table no. 3, I note that the Noticee has used the funds of its credit balance clients for the benefit of its debit balance clients or for its own purpose.

15.9. The objective of opening and maintaining a separate account for the client's funds is to segregate and identify them separately and to prevent its misuse so that they are beyond the reach of the stock broker and / or its employees. In the instant case, the Noticee has been observed to have transferred the funds of one client to the other or to its Promoter - Director, failing to maintain separate account for its client and for itself (proprietary account). Thus, I find that the Noticee has violated the provisions of SEBI 1993 Circular.

16. Non-segregation and misutilisation of client securities:

16.1. As per SEBI 1993 Circular, it shall be compulsory for all the member brokers to keep separate accounts for client's securities and to keep such books of accounts, as may be necessary, to distinguish such securities from his/their own (proprietary account) securities.

- 16.2. Based on the demat ledger of the proprietary account of the Noticee, it was observed that in certain instances, the securities were not available in the Demat ledger of the proprietary account when the Noticee had sold shares. The details of such instances are as follows:

Table no. 4

Scrip	Date of Sale	Balance available in Demat Ledger before sale	Qty. Sold	Shares sold in excess of availability
SBI Bank	03-06-15	0	8750	8750
ICICI Bank	03-06-15	0	10000	10000
HDFC Bank	03-06-15	0	4000	4000
Nectar Lifesciences	16-06-15	0	1142	1142
Raj TV	16-06-15	0	18117	18117
Unitech Ltd.	05-04-17	10205	127042	116837
ITC	14-09-16	2	3	1
Bliss GVS Pharma Ltd.	12-09-16	0	1285	1285

- 16.3. Further, it was also noted that on the following instances, shares were received for settlement of proprietary account obligation from client beneficiary accounts:

Table no. 5

Trade Date	Scrip	Qty. traded in Pro A/c	Shares credited in Pool A/c (016)	Remarks
08/09/2016	Meghmani Organics	3483	3483 shares transferred in pool a/c from Margin Ben A/c	3483 shares transferred from Margin Ben Account. Shares received in Margin Ben A/c from client Ben A/c (IN30009511647782)
09/09/2016	Reliance Naval	4850	4900 shares transferred in pool a/c from Margin Ben A/c	4900 shares settled. Shares received in Margin Ben A/ c from client Ben A/c (IN30009511647782)

Trade Date	Scrip	Qty. traded in Pro A/c	Shares credited in Pool A/c (016)	Remarks
09/09/2016	E-Land Apparel	200	500 shares transferred from Margin Ben	500 shares settled. Shares received in Margin Ben A/c from Client Ben A/c (IN30009511647782)
05/04/2017	Harrisons Malayalam	2300	3003 shares transferred from Margin Ben	3003 shares settled. 3003 shares received in Margin Ben A/c from IN30135630000419
05/04/2017	VikasEcotech	2210	2235 shares transferred from Margin Ben	2235 shares settled. 2235 shares received in Margin Ben A/c from client Ben A/c (IN30135630000419)
05/04/2017	Texmo Pipes	1499	1499 shares transferred from Margin Ben	1499 shares settled. Shares received in Margin Ben A/c from client A/c (IN30135630000419)

16.4. Based on the demat transaction statement of the Margin Beneficiary account of the Noticee, it was observed that the securities received from one client were transferred by the Noticee to another client.

16.5. It was also observed that the Noticee has utilised the securities pertaining to certain clients to meet pay in obligations of other clients. During the inspection, the Noticee submitted that three of its employees acted in collusion with KK Advisor and had sold shares in the client account (HOKL2) without owning those shares and utilised securities of other clients for the pay-in obligation. The details of such instances were provided as Annexure – 4 to the SCN.

16.6. Based on the demat account statement of the client account of the Noticee, it was observed that the Noticee has received 31 lakh shares of the scrip, MEP Infrastructure Developers Limited in its client beneficiary account number 12077700-00000073 in the month of September 2016 (5,50,000

shares received on September 28, 2016 and 25,50,000 shares received on September 29, 2016) from Mr. Mhalsaakar Dattatray Pandurang (12077700-00028646) who is not a registered client of Noticee.

16.7. From the aforesaid tables, I note that on multiple occasions even when excluding the instances mentioned at paragraph 16.5, the Noticee has used its clients' securities for settlement of its own obligations and has transferred securities *inter se* between its clients. The numerous instances show that this was not an inadvertent error on the part of the Noticee, rather, a practice in deliberate disregard of SEBI 1993 Circular. In the absence of any reply disputing the findings of inspection, I am constrained to record that the aforesaid acts of the Noticee using clients' securities either for its own benefit or for the beneficial interest of its other clients, is in violation of the provisions of SEBI 1993 circular.

17. Misutilisation of clients' securities by pledging:

17.1. The relevant extracts of the applicable provisions of SEBI Act and PFUTP Regulations are reproduced below:

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 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;

(b) 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;

(c) 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 thereunder.

PFUTP Regulations

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 thereunder.*

17.2. The DA report records that the Noticee pledged its clients' securities with ICICI Bank Ltd., Edelweiss Finance Ltd. and Canara Bank Ltd. to avail overdraft facility. The details of the securities pledged on the day when there was maximum utilization of overdraft in each financial year is as under:

Table no. 6

Date	Value of Shares pledged (INR)
20/08/2015	475004658.7
28/08/2015	416955145.38
14/10/2016	250941733.01
17/10/2016	250744528.84
29/04/2017	277424109.11
05/05/2017	245272521.01

17.3. Further, the DA report records that the Noticee was advised to submit details in respect of total value of shares pledged and amount availed, client-wise details of securities pledged and financial ledger balance of such clients. However, the Noticee failed to submit complete information like quantity of shares pledged, loan raised and amount of loan outstanding. From the data submitted by the Noticee, it was observed that the Noticee has pledged securities of 1116 clients. The ledger balance of these clients i.e., whether they had debit/ credit balance, could not be ascertained as the Noticee failed to submit the details.

17.4. The securities of the clients lying with the stock broker are held by the stock broker in a fiduciary capacity and the stock broker has been prohibited to use it for its own purpose by law. In the instant case, I note that the Noticee has pledged the securities belonging to its clients to the lenders of the Noticee on multiple occasions. The Noticee has knowingly misrepresented the truth to its clients that it is holding the shares on their behalf and has also knowingly concealed the fact from its lenders that the Noticee is not the actual beneficial holder of the securities that has been pledged with the lenders. By dealing in the shares of its clients in a deceitful manner, the Noticee has pledged the shares of its clients lying in its custody to avail loan / overdraft facilities to the detriment of its clients. Consequently, I find that the above act of the Noticee is in violation of Sections 12A (a), (b) and (c) of the SEBI Act and Regulations 3(a), (b), (c) and (d) of PFUTP Regulations.

18. Wrong reporting of Margin collection:

18.1. The relevant extracts of the applicable provisions of SEBI circulars are reproduced below:

18.1.1. SEBI 2011 DNPD Circular - This circular deals with short-collection/non-collection of client margins by the stock broker in equity and currency derivatives segments.

18.1.2. SEBI 2012 Circular – This master circular deals with matters relating to Exchange Traded Derivatives.

18.1.3. NSE 2011 Circular – This circular deals with short-collection/Non-collection of client margins.

18.2. During the inspection, it was observed that the Noticee had collected margin lower than the minimum margin required by the Exchange and wrongly reported the margin collected as the minimum margin required on 10 instances. The details of such instances are given below:

Table no. 7

Date	Client Code	Margin collected	Minimum Margin Required by Exchange	Margin Reported as Collected as per response provided by Noticee	Wrong Reporting
17.03.2017	HOKL2	100240518.01	111767538.66	111767538.66	11527020.65
27.03.2017	HOKL2	63645289.30	116309170.46	118204588.7	52663881.16
28.03.2017	HOKL2	65403073.00	116488809.39	116996450.26	51085736.39
20.03.2017	HOKL2	99742289.81	117290827.09	117290827.09	17548537.28
23.03.2017	HOKL2	98338125.58	112479202.25	115020916.57	14141076.67
07.08.2017	PRO	32011326.67	46785509.97	46785509.97	14774183.30
01.08.2017	PRO	30075539.86	41343568.92	41343568.92	11268029.06
31.07.2017	PRO	25422472.72	38737012.35	38737012.35	13314539.63
17.05.2017	HOKL2	(54882155.44)	40442600.32	40442600.32	95324755.76
04.08.2017	PRO	319382428.23	46866119.79	46866119.79	14927691.56

18.3. From the above table, I note that the Noticee has not only failed to collect the required margin from its clients against their dealings but has also indulged in wrong reporting of its clients as well as its own proprietary trades. This resulted in shortfall in margin collection and the consequent wrong reporting of margin collection to the Exchange. By not collecting the required margin from its clients and then wrongly reporting to the Exchange that it had collected the required margin, the Noticee had given an excessive exposure to its clients without any means to support such exposure. Further, the Noticee had also wrongly reported that it had the required margin for its proprietary trades and had taken excessive exposure. Consequently, the Noticee has engaged knowingly in activities that have endangered and compromised the integrity of the capital market. Therefore, I find that the Noticee has failed in its duty to correctly report the margins for its clients and for its own proprietary trades to the Exchange, thereby violating provisions of SEBI 2011 DNPDCircular, SEBI 2012 circular and NSE 2011 circular.

19. Non-redressal of investor grievance:

19.1. The relevant extracts of the applicable provisions of Stock Brokers Regulations and SEBI circular are reproduced 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, -

(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 2013 Circular – deals with Investor Grievance Redressal Mechanism.

20. The DA has held that a total of 288 investors complaints with a claim value of INR 41.92 crores were pending against the Noticee as on April 17, 2018. Further, I note that the same conclusion was arrived at in the 2022 WTM Order.

21. All intermediaries are mandated to redress the investors' grievances under the SEBI act. In the instant matter, as per available records, the default to redress investors' grievances in question had continued for a considerable period of time, well beyond the time period of one month prescribed under the applicable regulations and circular. Therefore, I find that the Noticee has violated the provision of SEBI 2013 circular and Regulation 9 (e) of Stock Brokers Regulations.

22. **Non-submission of information**

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

Stock Brokers Regulations

Obligations of stock-broker on inspection by the Board.

21. (1) It shall be the duty of every director, proprietor, partner, officer and employee of the stock-broker, who is being inspected, to produce to the inspecting authority such books, accounts and other documents in his custody or control and furnish him with the statements and information relating to the transactions in securities market within such time as the said officer may require.

(2) The stock-broker shall allow the inspecting authority to have reasonable access to the premises occupied by such stock-broker or by any other person on his behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the stock-broker or any other person and also provide copies of documents or other materials which, in the opinion of the inspecting authority are relevant.

(3) The inspecting authority, in the course of inspection, shall be entitled to examine or record statements of any member, director, partner, proprietor and employee of the stock-broker.

(4) It shall be the duty of every director, proprietor, partner, officer and employee of the stock broker to give to the inspecting authority all

assistance in connection with the inspection, which the stock broker may reasonably be expected to give.

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

A. General

(5) Compliance with statutory requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.

Regulation 27(ix) of the Stock Brokers Regulations

Liability for action under Intermediaries Regulations

27. (ix) fails to co-operate with the inspecting or investigating authority;

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

22.2.1. The Noticee has failed to provide complete information/data sought from it by the inspection team at the time of inspection.

22.2.2. Further, SEBI, in order to solicit cooperation from the Noticee, had held two rounds of post inspection meeting with the Noticee on September 26, 2017 and January 18, 2018 and had advised the Noticee to submit all the data/ information sought from it.

22.2.3. Several emails (October 25, 2017, October 27, 2017, November 28, 2017 and January 19, 2018) and letters (January 25, 2018 and January 29, 2018) were also addressed to the Noticee reminding it to submit the requisite data. However, the Noticee failed to submit any data / information as sought by the inspecting team.

22.2.4. The Noticee also has failed to submit its response to the observations made during the inspection which were communicated to the Noticee, vide letter dated February 2, 2018.

22.3. I also note that the same findings were made in the 2022 WTM Order.

22.4. 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. Intermediaries are duty bound to produce the relevant records as and when required by the inspecting team or enquiring authority or by any person authorised by SEBI in this behalf. Therefore, I find that the Noticee has violated regulation 21 of Stock Brokers Regulations and Clause A (5) of the code of conduct for Stock Brokers as prescribed under Schedule II read with Regulation 9 of Stock Brokers Regulations and Regulation 27(ix) of Stock Brokers Regulations.

23. As stated earlier, with effect from April 2018, the Noticee was declared a defaulter and was expelled from the membership of BSE and NSE. Regulation 9(a) of the Stock Brokers Regulations provides that any registration granted by SEBI is subject to the condition that the stock broker holds the membership of any stock exchange. Further, as per regulation 27(i) of Stock Brokers Regulations, ceasing to be a member of a stock exchange is one of the ground of suspension or cancellation of registration as a stock broker. Thus, the absence of a membership in any exchange is by itself a ground for cancellation of registration as a stock broker.

24. In view of all the violations detailed in this Order, I am inclined to accept the recommendation made in the DA Report that the certificate of registration granted to the Noticee should be cancelled.

D. ORDER

25. In view of the aforesaid observations and findings, I, in exercise of the powers conferred upon me under Section 12(3) read with Section 19 of the SEBI Act and Regulation 27 of the Intermediaries Regulations, hereby cancel the certificate of registration of F6 Finserve Private Limited.

26. Irrespective of the cancellation of registration, the Noticee shall continue to be liable for anything done or omitted to be done as stock broker and continue to be responsible for payment of outstanding fees and dues if any, due to SEBI.

27. This Order shall come into force with immediate effect.

28. A copy of this order shall be served upon the Noticee and all recognised Stock Exchanges for information and necessary action.

-Sd-

ANANTH NARAYAN G.

DATE: JUNE 21, 2023

WHOLE TIME MEMBER

PLACE: MUMBAI

SECURITIES AND EXCHANGE BOARD OF INDIA