



VLS FINANCE LTD.

Regd.
Corp. Office : 90, Okhla Industrial Estate,
Phase III, New Delhi-110020
Tel. : 91-11-46656666
Fax : 91-11-46656699
Email : vls@vlsfinance.com
Web : www.vlsfinance.com
CIN : L65910DL1986PLC023129

June 13, 2022

The Chief General Manager,
Market Intermediaries Regulation and Supervision Dept.
Securities and Exchange Board of India,
SEBI Bhavan, Plot no. C4A, "G" Block,
Bandra Kurla Complex,
Bandra (East), Mumbai-400051

Sub: Request for Informal Guidance in the form of a No-action letter under the Securities and Exchange Board of India (Informal Guidance) Scheme 2003 as amended ("IG Scheme")

Dear Sir/Madam,

We submit this letter seeking informal guidance in the form of No-action letter under the provisions of the IG scheme in respect of the transactions of Investment/Loan or otherwise to Subsidiaries and other entities covered under circular no.20220107-45 dated 7.1.2022 of BSE Ltd., where own funds are employed by stockbroker.

1. Factual background:

1.1 We are a Trading Member of BSE Ltd. having registration no. INZ000302836 presently engaged in Pro business with no client enrolment. We have no outside borrowings. We primarily invest and trade in securities. So far as BSE is concerned, we trade only in Pro Account on BSE Terminal. As already stated, we do not have any client, so we do not have any client's money with us. In order to deploy our surplus funds, we wish to exploit other opportunities to optimize our returns, de-risk our investment portfolio and with these in view intend exploiting opportunities say in the areas of NBFC, Real Estate etc. without resorting to any outside borrowing. In order to achieve the aforesaid objectives we intend doing the following:

- Invest in Commercial Real Estate to earn rental income
- Invest in subsidiary companies by way of loan and/or capital contribution for investing in real estate
- Acquire equities of companies owning real estate
- Investment in entities not engaged in securities business etc.



1.2 We refer to BSE Circular no. 20220107-45 dated 7.1.2022 and identical Circular of NSE, Department of Compliance, Circular Ref No. 02/2022 dated 7.1.2022. Copy of respective circulars are enclosed as Annexure-A (Colly.). The Circulars incorporate clarifications to the Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957 (SCRR). As per clarifications to the said Rules vide the aforesaid circular, the Members of a Stock Exchange, except those provided under Rule 8(8) of SCRR, shall not engage either 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.

Both the Circulars which have been issued in consultation with SEBI and other Stock Exchanges have also given the illustrative list of activities that are construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR. This list includes a host of activities. However, we wish to draw your kind attention particularly to the following:

Clause 9

“Entering into any arrangement for extending loans or giving deposits/advances to any entity, including group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/commodity derivatives business.”

Clause 10

“Investments made in group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities / commodity derivatives business. (Ex: Investment in companies engaged in other businesses such as NBFC, Real estate etc.”



2. Legal Framework

Regulation 8 (1) (f) and 8 (3) (f) as also Regulation 8 (4A) of Securities Contracts Regulation Rules, 1957 have been reproduced as under:

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

(1) No person shall be eligible to be elected as a member if—

- (a) he is less than twenty-one years of age;
- (b) he is not a citizen of India; provided that the governing body may in suitable cases relax this condition with the prior approval of the 9[Securities and Exchange Board of India];
- (c) he has been adjudged bankrupt or a receiving order in bankruptcy has been made against him or he has been proved to be insolvent even though he has obtained his final discharge;
- (d) he has compounded with his creditors unless he has paid sixteen annas in the rupee;
- (e) he has been convicted of an offence involving fraud or dishonesty;
- (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:

Provided that nothing herein shall be applicable to any corporations, bodies corporate, companies or institutions referred to in clauses (a) to (n) of sub-rule (8).

(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—



(a) he ceases to be a citizen of India :

Provided that nothing herein shall affect those who are not citizens of India but who were members at the time of such application or were admitted subsequently under the provisions of clause (b) of sub-rule (1) of this rule, subject to their complying with all other requirements of this rule;

(b) he is adjudged bankrupt or a receiving order in bankruptcy is made against him or he is proved to be insolvent;

(c) he is convicted of an offence involving fraud or dishonesty;

(d) 12[* * *]

(e) 13[* * *]

(f) he engages either as principal or employee in any business other than that of securities 14[or commodity derivatives] except as a broker or agent not involving any personal financial liability, provided that—

(i) the governing body may, for reasons, to be recorded in writing, permit a member to engage himself as principal or employee in any such business, if the member in question ceases to carry on business on the stock exchange either as an individual or as a partner in a firm,

(ii) in the case of those members who were under the rules in force at the time of such application permitted to engage in any such business and were actually so engaged on the date of such application, a period of three years from the date of the grant of recognition shall be allowed for severing their connection with any such business,

(iii) nothing herein shall affect members of a recognised stock exchange which are corporations, bodies corporate, companies or institutions referred to in items [(a) to (n) of sub-rule (8).



(4A) A company as defined in the Companies Act, 1956 (1 of 1956), shall also be eligible to be elected as a member of a stock exchange if—

(i) such company is formed in compliance with the provisions of section 12 of the said Act;

(ii) such company undertakes to comply with such financial requirements and norms as may be specified by the Securities and Exchange Board of India for the registration of such company under sub-section (1) of section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992);

(iii) [* * *]

(iv) the directors of the company are not disqualified from being members of a stock exchange under 19[clause (1) [except sub-clause (b) and sub-clause (f) thereof] or clause (3) [except sub-clause (a) and sub-clause (f) thereof]] and the Directors of the company had not held the offices of the Directors in any company which had been a member of the stock exchange and had been declared defaulter or expelled by the stock exchange; and

(v) not less than two directors of the company are persons who possess a minimum two years' experience :

(a) in dealing in securities; or

(b) as portfolio managers; or

(c) as investment consultants.

3. Our Analysis and Interpretation

3.1 In Adjudication order no. EAD-12/AO/SM/48/2017-18 dated 31.10.2017 of the Adjudicating Officer, SEBI in the matter of Geojit BNP Paribas Financial Services Limited (PAN AABCG1935E), a copy whereof is enclosed as **Annexure – B**, the following points merit your kind attention:



In Para 10 (a) and 10 (b) of the said order, inter alia, the alleged violation of Rule 8(3)(f) of SCRR Regulations was the issue for consideration. In Para 14 of the said order, it was distinguished that advancing of loans to its subsidiary out of own funds cannot be construed as separate business activity of a broker. It is further held in para 16 of the said Order that the debts or advances given to the associate persons by the broker are allowed but are excluded only for the purpose of computing the net worth. It is further held in the said Para 16 "Hence there is no bar on the broker to advance loans to associate persons. However, it has to be ensured that the funds that are advanced as loans are the brokers' own fund and that the clients' fund is not affected by such transactions. In Para 18, the underlying rationale of rule 8(3)(f) of SCRR Regulations is examined and it is stated "The main purpose of Rule 8(3)(f) of SCRR was to prohibit the brokers to invest the clients' money in other businesses."

In the said order, the noticee was absolved of charges of violation of aforesaid rules for the activity of lending to subsidiary which was an NBFC.

3.2 There appears to be a clear differentiation between criteria for Individuals and Corporate Members of Stock Exchange. Corporate Members are covered under Rule 8(4A) of SCRR 1957 whereas Individuals are intended to be covered under Regulation 8(1) and 8(3) of said regulations. The said clauses viz. Rules 8(1)(f) and 8(3)(f) of SCRR 1957, therefore, seems to be not applicable to Corporate Members because no reference of their applicability even mutatis mutandis is indicated in clause (4A) of regulations.

4. Request for No Action Letter under IG Scheme:

In view of the foregoing, please provide us informal guidance in the form of 'no action letter', having regard to the following:

- the Order of the Adjudicating Officer in the matter of Geojit BNP Paribas Financial Services Limited (PAN AABCG1935E);
- non-applicability of Rule 8(1)(f) and 8(3)(f) in case of Corporate Members who are covered under Rule 8(4A) of SCRR, 1957;



- the fact that we are engaged only in Pro business with no client enrolment

that in case we also invest our own funds, in the following activities, after meeting all Stock Exchange Membership requirements including Net Worth and Margins etc.:

1. Commercial Real Estate to earn rental income
2. Subsidiary companies by way of loan and/or capital contribution for investing in real estate
3. To acquire equities of companies owning real estate
4. Investment in entities not engaged in securities business etc.

5. Fees:

As per requirements prescribed under SEBI (Informal Guidance) Scheme 2003, we are enclosing along with this application, the details of NEFT payment transaction for an amount of Rs. 25,000/- (Rupees Twenty Five Thousand) for seeking the no action letter as **Annexure-C**.

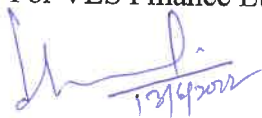
6. Confidentiality:

We request you to give confidential treatment to this request and SEBI's corresponding response for a period of 90 (Ninety) days from the date on which such response is issued, as per paragraph 11 of the SEBI (Informal Guidance) Scheme 2003.

In case any clarification/information with respect to this application is required, please contact below mentioned person(s):

- H. Consul – Company Secretary VLS Finance Ltd.
Ph: 011-46656666 Ext-104, Mobile no. 9891171167

Thanking you,
For VLS Finance Ltd.



H. Consul
Company Secretary
M.No.A-11183



Encl: As above



NOTICES

Notice No.	20220107-45	Notice Date	07 Jan 2022
Category	Compliance	Segment	General
Subject	Clarification to the Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957		

Content

The Rule 8(1)(f) and Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957 ("SCRR"), requires that members of a Stock Exchange, except those provided under Rule 8 (8) of SCRR, shall not engage either 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.

SEBI vide Circular No. SMD/Policy/Cir-6 dated May 07, 1997, had clarified, inter alia, that borrowing and lending of funds by a trading member in connection with or incidental to or consequential upon the securities business would not be disqualified under rule/s 8(1)(f) and 8(3)(f) of Securities Contract (Regulations) Rules, 1957.

It was further clarified vide SEBI Circular No. CIR/MIRSD/4/2015 dated September 29, 2015, that business in goods related to the underlying" and/or "business in connection with or incidental to or consequential to trades in commodity derivatives", by a member of a commodity derivatives exchange, would not be disqualified under Rule 8(1)(f) and Rule 8(3)(f) of the Securities Contract (Regulation) Rules, 1957.

In spite of aforesaid clarifications, it is observed that members are engaged in businesses other than securities or commodity derivatives business like entering loan arrangement with clients/entities, collecting money in the form of deposit or otherwise by offering fixed/guaranteed/periodic returns orally or in writing, extending corporate guarantees etc. which is in contravention of Rule 8(3)(f) of SCRR.

In view of the above, it is reiterated that Members are not permitted to engage in any business or activities or transactions, directly or indirectly, other than that of securities or commodity derivative except as a broker or agent not involving any personal financial liability.

In consultation with SEBI and other Stock Exchanges, the illustrative list of activities that are construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR, if undertaken by a member, are provided as below.

1. Issuing Corporate Guarantees towards credit facilities availed by any entity, including group companies such as subsidiaries & associates etc. of the Member, not in connection with or incidental to or consequential upon securities / commodity derivatives business, as applicable.
2. Deposit pledged with the bank for overdraft facilities availed by any entity, including the group companies such as subsidiaries & associates etc. of the Member, not in connection with or incidental to or consequential upon securities / commodity derivatives business, as applicable.
3. Borrowing of funds for the purpose of granting loans to its associates/ group companies or other entities.
4. Issuing commercial papers to raise money (except as permitted vide Exchange notice no: 20170803-5 dated August 03, 2017, for providing the margin trading facility) and funding it to any entity including group companies, not in connection with or incidental to or consequential upon securities business.
5. Engaging into activities/schemes of unauthorised collective investments/portfolio management, promising or indicating fixed/guaranteed/regular returns/capital protection.
6. Entering into any arrangement with clients to extend loans, financing the securities transactions directly/indirectly except as allowed for Margin Trading purposes.
7. Any arrangement with registered clients to borrow funds/loans.
8. Pledging of client securities with Bank/NBFC for raising funds.
9. Entering into any arrangement for extending loans or giving deposits / advances to any entity, including group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/ commodity derivatives business.
10. Investments made in group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/ commodity derivatives business. (Ex: Investment in companies engaged in other businesses such as NBFC, Real Estate etc.).
11. Entering into any arrangement/scheme for accepting securities from any client/ entity other than through approved Securities and Lending Borrowing mechanism into the own Demat account of the Stockbroker/director/shareholder/entity associated with trading member.
12. Entering into any arrangement/scheme and providing a platform to the clients for buying and selling of digital gold or any product not covered under the definition of securities as per SCRR.

The activities mentioned above are only illustrative in nature. On a case-to-case basis and based on the gravity of the violation, the relevant authority of the Exchange shall deal with such non-compliances after following the due process and providing the necessary opportunity to the trading members for clarification in the matter.

1/20/22, 1:54 PM

Notice Number

All Members are advised to take note of the above and strictly comply.

For and on behalf of BSE Ltd.

Hiteshkumar Desai
Additional General Manager
Broker Supervision

Sandeep Sharma
Asst. General Manager
Broker Supervision

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A guiding light
shining bright



National Stock Exchange of India Limited

Circular

DEPARTMENT: COMPLIANCE	
Download Ref No: NSE/COMP/50957	Date: January 07, 2022
Circular Ref. No: 02/2022	

To All Members,

Sub: Clarification to the Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957

The Rule 8(1)(f) and Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957 ("SCRR"), requires that members of a Stock Exchange, except those provided under Rule 8 (8) of SCRR, shall not engage either 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.

SEBI vide Circular No. SMD/Policy/Cir-6 dated May 07, 1997, had clarified, inter alia, that borrowing and lending of funds by a trading member in connection with or incidental to or consequential upon the securities business would not be disqualified under rule/s 8(1)(f) and 8(3)(f) of Securities Contract (Regulations) Rules, 1957.

It was further clarified vide SEBI Circular No. CIR/MIRSD/4/2015 dated September 29, 2015, that business in goods related to the underlying" and/ or "business in connection with or incidental to or consequential to trades in commodity derivatives", by a member of a commodity derivatives exchange, would not be disqualified under Rule 8(1)(f) and Rule 8(3)(f) of the Securities Contract (Regulation) Rules, 1957.

In spite of aforesaid clarifications, it is observed that members are engaged in businesses other than securities or commodity derivatives business like entering loan arrangement with clients/entities, collecting money in the form of deposit or otherwise by offering fixed/guaranteed/periodic returns orally or in writing, extending corporate guarantees etc. which is in contravention of Rule 8(3)(f) of SCRR.

In view of the above, it is reiterated that Members are not permitted to engage in any business or activities or transactions, directly or indirectly, other than that of securities or commodity derivative except as a broker or agent not involving any personal financial liability.



Confidential

National Stock Exchange of India Limited

In consultation with SEBI and other Stock Exchanges, the illustrative list of activities that are construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR, if undertaken by a member, are provided as below.

1. Issuing Corporate Guarantees towards credit facilities availed by any entity, including group companies such as subsidiaries & associates etc. of the Member, not in connection with or incidental to or consequential upon securities / commodity derivatives business, as applicable.
2. Deposit pledged with the bank for overdraft facilities availed by any entity, including the group companies such as subsidiaries & associates etc. of the Member, not in connection with or incidental to or consequential upon securities / commodity derivatives business, as applicable.
3. Borrowing of funds for the purpose of granting loans to its associates/ group companies or other entities.
4. Issuing commercial papers to raise money (except as permitted vide Exchange circular No: NSE/COMP/35521 dated August 03, 2017, for providing the margin trading facility) and funding it to any entity including group companies, not in connection with or incidental to or consequential upon securities business.
5. Engaging into activities/schemes of unauthorised collective investments/portfolio management, promising or indicating fixed/guaranteed/regular returns/capital protection.
6. Entering into any arrangement with clients to extend loans, financing the securities transactions directly/indirectly except as allowed for Margin Trading purposes.
7. Any arrangement with registered clients to borrow funds/loans.
8. Pledging of client securities with Bank/NBFC for raising funds.
9. Entering into any arrangement for extending loans or giving deposits / advances to any entity, including group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/ commodity derivatives business
10. Investments made in group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/ commodity derivatives business. (Ex: Investment in companies engaged in other businesses such as NBFC, Real Estate etc.)
11. Entering into any arrangement/scheme for accepting securities from any client/ entity other than through approved Securities and Lending Borrowing mechanism into the own Demat account of the Stockbroker/director/shareholder/entity associated with Trading Member.
12. Entering into any arrangement/scheme and providing a platform to the clients for buying and selling of digital gold or any product not covered under the definition of securities as per SCRR.





National Stock Exchange of India Limited

The activities mentioned above are only illustrative in nature. On a case-to-case basis and based on the gravity of the violation, the relevant authority of the Exchange shall deal with such non-compliances after following the due process and providing the necessary opportunity to the trading members for clarification in the matter.

All Members are advised to take note of the above and strictly comply.

For any support, please reach out to the helpdesk on 1800 266 0050 or email at Compliance_assistance@nse.co.in.

For and on behalf of
National Stock Exchange of India Limited

Srijith Menon
Associate Vice President



**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. EAD-12/ AO/SM/48 /2017-18]**

UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES, 1995 AND UNDER SECTION 23-I OF THE SECURITIES CONTRACTS (REGULATION) ACT, 1956 READ WITH RULE 5 OF THE SECURITIES CONTRACTS (REGULATION) (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES, 2005.

In respect of:

**Geojit BNP Paribas Financial Services Limited
(PAN: AABCG1935E)**

In the matter of inspection of Geojit BNP Paribas Financial Services Limited

FACTS OF THE CASE IN BRIEF

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI'), conducted an inspection of books and records of Geojit BNP Paribas Financial Services Limited (hereinafter referred to as "**Geojit**"/ "**Noticee**") for the period from April 1, 2012 till February 13, 2014 to ascertain whether the provisions with respect to segregation of client funds and securities have been complied with and particularly whether the Noticee was utilizing the assets of the clients for the purposes other than the ones specified in the Rules and SEBI Circulars. During the inspection, it was observed that the Noticee had given loans and fund transfers to its subsidiaries which is in violation of provisions of Clause A(5) of the code of conduct as specified under Schedule II read with Regulation 9 of SEBI (Stock Broker and Sub-Brokers) Regulations, 1992 (hereinafter referred to as the Broker Regulations), Rule 8(3)(f) of the Securities



Contracts (Regulation) Rules, 1957 (hereinafter referred to as the SCRR, 1957) and SEBI Circular No. SMD/Policy/Cir-6/97 dated May 07, 1997, thereby, making it liable for monetary penalty as specified under Section 15HB of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "SEBI Act") for the Broker Regulations violation and Section 23H of the Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as the SCRA, 1956) for violation of SCRR, 1957 and the SEBI Circular dated May 07, 1997.

APPOINTMENT OF ADJUDICATING OFFICER

2. Vide an order of Whole Time Member, SEBI, dated March 4, 2015, Mr. D Sura Reddy, GM, SEBI was appointed as the Adjudicating Officer under section 15 I of SEBI Act read with rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as 'Rules') and section 23I of SCRA and Rule 3 of Securities Contracts and Regulation (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 2005 (hereinafter referred to as ' SCRA Rules') to inquire into and adjudge the alleged violations of Brokers Regulations, SCRR and SEBI Circular No. SMD/Policy/Cir-6/97 dated May 07, 1997. On transfer of the matter vide order dated May 18, 2017, the undersigned has been appointed as the Adjudicating Officer to inquire into and adjudge under the provisions as enumerated above.

SHOW CAUSE NOTICE, REPLY AND HEARING

3. Show Cause Notice No. EAD-2/DSR/RG/19047/2016/1 dated July 4, 2016 (hereinafter referred to as 'SCN') was issued to the Noticee alleging that it had given loans to the subsidiaries which are enlisted below:

Sr. No.	Name of the Entity	Relationship	Percentage Shareholding
1.	Geojit Investment Services Limited	Subsidiary	100
2.	Geojit Technologies Private Limited	Subsidiary	65
3.	Geojit Credits (P) Limited	Subsidiary	65.03
4.	Geojit Financial Distribution Private Limited	Subsidiary	100
5.	Geojit Financial Management Services Private Limited	Subsidiary	100



4. It was alleged upon further analysis of the loans given by examining various bank accounts maintained by the Noticee that for the F.Y. 2012-13, the following loans were advanced by the Noticee to its subsidiary viz. Geojit Credits Private Limited (hereinafter referred to as "GCPL"):

Sr. No.	Date	Details	Cheque Number	Amount
	04/01/2012	Opening Balance		125,000,000
1.	11/08/2012	Geojit Credits (P) Limited	246203	24,400,000
2.	05/17/2012	Geojit Credits (P) Limited	180724	50,000,000
3.	10/10/2012	Geojit Credits (P) Limited	243589	65,000,000
4.	10/04/2012	Geojit Credits (P) Limited	243192	80,000,000
5.	05/08/2012	Geojit Credits (P) Limited	179913	100,000,000
6.	06/22/2012	Geojit Credits (P) Limited	183583	100,000,000
7.	06/28/2012	Geojit Credits (P) Limited	183950	100,000,000
8.	08/08/2012	Geojit Credits (P) Limited	189429	200,000,000
				719,400,000

5. On examination of the audit trail of these loans, it was alleged that in most cases the Noticee had redeemed funds invested in BNP Paribas Mutual Fund to give loans to the subsidiary company GCPL. The details of the analysis are as under:

Date	From	Amount (₹)	Receiver 1	Receiver 2	Amount (₹)	Comments of Broker
08.05.2012	RTGS-YESBH12129000345/BNP PARIBAS MUTUAL FUND	10 Cr.	Geojit Credits (P) Ltd.	NIL	10 Cr.	Rs.10 Cr invested in BNP Paribas Mutual Fund was redeemed on 08.05.2012 and was given as loan to Geojit Credits Pvt Ltd as per their request
17-05-2012	RTGS-YESBH12138000184/BNP PARIBAS MUTUAL Fund	5 Cr.	Geojit Credits (P) Ltd.	NIL	5 Cr.	Rs.5 Cr invested in BNP Paribas Mutual Fund was redeemed on 17.05.2012 and was given as loan to Geojit Credits Pvt Ltd as per their request.



4-10-2012	RTGS-YESBH12278000391/B NP PARIBAS MUTUAL Fund	8.00 Cr.	Geojit Credits (P) Ltd.	NIL	8.00 Cr.	Rs. 8 Cr invested in BNP Paribas Mutual Fund was redeemed on 04.10.2012 and was given as loan to Geojit Credits Pvt. Ltd. as per their request.
10-10-2012	RTGS-YESBH12284000064/B NP PARIBAS MUTUAL Fund	6.5 Cr.	Geojit Credits (P) Ltd.	NIL	6.5 Cr.	Rs.6.5 Cr invested in BNP Paribas Mutual Fund was redeemed on 10.10.2012 and was given as loan to Geojit Credits Pvt. Ltd. as per their request.
08-11-2012	Client Bank Account*- Axis Bank Current A/c No.2721	3.04 cr.	Own Bank Account- Axis Bank Current A/c No.2905	Geojit Credits Pvt. Limited	2.44 cr.	The surplus funds (Rs.3.04 Cr) which represents own funds of Geojit BNP Paribas Financial Services Ltd available in client bank account (Axis Bank Current A/c No.2721) was transferred to own bank account (Axis Bank Current A/c No.2905) on 08.11.2012 and Rs.2.44 Cr was given as loan to Geojit Credits Pvt Ltd (Axis Bank Current A/c No. 8976) as per their request

6. Further, it was alleged that the loan given by the Noticee to its subsidiaries was used by the subsidiaries for assisting clients whose money got blocked in the National Spot Exchange Ltd (NSEL) crisis. It was noted that the modus operandi adopted was to give loans by the group companies to GCPL which in turn provided loans to the clients of Geojit Comtrade Ltd. against assignment of their commodity trade receivables from



the NSEL. Therefore, it is observed that these are not regular loan transactions and were done to accommodate the clients who have taken exposure in NSEL.

7. The Noticee, vide letter dated August 12, 2016 replied to the SCN stating, inter alia, the following:

- i. *The allegation that the short term financial accommodation by Geojit, GTPL and GFMSPL to GCPL are not regular loan transactions and were done to accommodate the clients who have taken exposure in NSEL is neither correct nor substantiated. GCPL, which is a non-banking finance company, as stated above, was advancing loans against shares and loans against commodities even prior to establishment of NSEL. Even after the closure of NSEL in 2013, it continued to advance loans against shares and loans against commodities. Therefore, it is not correct to allege that group companies of Geojit have advanced loans to GCPL to accommodate only the clients who have taken exposure in NSEL. It is pertinent to note that even during the period from 1st April, 2012 to 31st July, 2013, GCPL has also advanced loans against shares and loans against commodities.*
- ii. *Geojit has advanced the monies to GCPL, its subsidiary for working capital requirements even prior to 2012 when GCPL has commenced lending to the client dealing on NSEL in. Further, during the period under inspection also, the monies advanced by Geojit to GCPL have been used by GCPL for giving loans to clients who had transactions not only with NSEL but also with NCDEX, MCX, and NMCE. GCPL has also been providing loans to its clients against shares. It is submitted the allegation that the loans given to GCPL were not regular loan transaction and were done to accommodate to clients who have taken exposure in NSEL is therefore not correct.*
- iii. *it was observed and mentioned in the inspection report that the stock broker was using surplus funds invested in BNP Paribas Mutual Fund to give loans to the subsidiary company Geojit Credits (P) Ltd" and that the funds provided by Geojit to GCPL were the own funds of Geojit. The foregoing observations make it abundantly clear that only surplus funds were advanced by Geojit to GCPL. Rightly, even the SCN mentions that only the own funds were given by Geojit to GCPL. Thus, they were not funds belonging to the clients or borrowed funds which could have saddled personal liability on Geojit. On the contrary, they were the own funds of Geojit either lying invested in BNP Paribas Mutual Fund or lying in the current account with Axis*



Bank without earning any interest on the amounts lying in the current account.

- iv. *We submit that the intent of rule 8(1) (f) or rule 8(3) (f) of SCRR is only to ensure that a stock broker will not carry any other business and get saddled with personal liability which would erode the net worth of the stock broker, thereby, prejudicially affect the interests of his clients trading in securities. The intent of the above rules is also captured and incorporated by SEBI in SEBI (Stock Broker and Sub-Broker) Regulations, 1992 ("Broker Regulations").*
- v. *We also submit that section 186(6) of the Companies Act, 2013, inter alia stipulates that no company registered under section 12 of Securities and Exchange Board of India Act, 1992 shall take inter-corporate loan or deposits exceeding the limits prescribed limits and such company shall furnish in its financial statements the details of the loan or deposits. We submit that the intent of the foregoing provision is to ensure that the intermediaries registered with SEBI will not borrow or accept deposits creating a risk to its business and to the clients who deal with or through them in the securities market. Even though the margin heading and the provisions of section 186 deal with the loan and investment by the company, there is no restriction on the inter corporate loans given by a SEBI registered intermediary and the restriction applies only for accepting or taking inter corporate deposits. As set out above, inter corporate deposits taken by a stock broker may pose risk to the business of the stock broker and consequently may affect the clients dealing with such stock broker. However, a inter- corporate loan given by a stock broker out of surplus funds, which exceed the minimum networth requirement applicable to stock broker as well as the working capital requirement for its business, as a temporary financial accommodation would not pose such risk. We submit, the legislature being aware of 8(3)(f) of SCRR has still stipulated that inter-corporate deposits can be taken by the SEBI registered intermediaries to the extent of prescribed limits and has not excluded the stock broker. Further, we submit that the foregoing position is consistent with the SEBI view as reflected under Schedule VI (read with regulation 5(h) and 9(g) of Broker Regulations and SEBI circular no. SMD/SED/CIR/93/22570, dated October 21, 1993.*
- vi. *We submit that short term financial accommodation provided to a subsidiary company out of the surplus funds, which are in excess over the minimum networth requirements and its working capital requirement, is an alternative to investment in shares of the subsidiary and the same shall not be considered as a business activity of the stock broker. The same will not amount to business involving personal financial liability.*



- vii. We submit that as on 31st March 2013 and 31st March 2014 Geojit was having a net worth of Rs 395 crore and Rs 315 crore and a net working capital of Rs 202.2 crore and Rs 104 crore respectively. (On an average basis Geojit had cash surpluses of Rs.121 cr. and Rs.132 cr. During 2012-13 and 2013-14 respectively, which were invested in liquid funds and Bank deposits). We submit that the temporary financial accommodation provided to the subsidiary were out of surplus funds, which were in excess over the minimum networth requirement and its working capital requirements, lying in liquid funds of Mutual Funds and the current account of Geojit with Axis Bank as evident from the observations made in the Inspection Report itself. We further submit that the monies advanced by Geojit to GCPL on various occasions, aggregating to Rs. 88.87 crore (maximum amount outstanding at any point in time was Rs 58.80 crore) had no adverse effect on the clients of Geojit in any manner nor does it saddle Geojit with any financial liability as the funds advanced were out of its surplus funds and not out of its borrowings. Moreover, said advances were repaid by GCPL to Geojit on demand and only an amount of Rs.7.47 crore is outstanding as on the date.
- viii. We submit that the temporary advances given by Geojit to its subsidiary be viewed as a support extended to its subsidiary out of its surplus funds and not as a business activity. We further submit that Geojit is a listed public company with a substantial public shareholding of about 37%. The returns to the public shareholders of Geojit from the interest earned by lending surplus funds to GCPL were substantially higher than the returns Geojit shareholders would have earned by surplus funds remaining invested in mutual funds or current account of a bank. Further, the increase in the business of the subsidiary would also increase the value of Geojit benefitting the public shareholders as well.
- ix. We submit that no prejudice is caused to the clients of Geojit in any manner by providing such temporary financial accommodation to its subsidiary as the same was done out of its surplus funds, which were in excess over the minimum networth requirement and its working capital requirements. And such financial accommodation has not affected the business of Geojit nor saddled any personal financial liability. We further submit that business turnover of Geojit is more than 2 lakh crore in a year and Geojit has earmarked sufficient amount for meeting its working capital requirements and utilized only surplus fund for investment and providing temporary financial accommodation to its subsidiary.
- x. We submit that if a view is taken that the investment of surplus funds by way of inter corporate loans to other companies (even to subsidiaries) would be considered as other business, which shall not be carried out by the stock trading entities, the same would



force the stock braking entities to have a thin capital that would meet the working capital requirements and ensure that no surplus amounts are retained/earned in the braking entities. And, such approach is not good for the braking entities as it would come in the way of expansion of the securities business and development of securities market. We further submit that a stock braking entity attempting to reduce the surplus money in its business due to lack of investment avenues for surplus funds would not be in the interest of the investor clients. A strong balance sheet of a stock braking entity with surplus funds (even in the form of investments as inter corporate deposits or loans in subsidiaries) would comfort and help in safeguarding the interests of the investor clients. We submit that the restriction on stock braking entities in accepting inters corporate deposits or providing inter corporate loans out of the borrowed funds would be in the interest of the securities market. But imposition of restriction on providing inters corporate loans out of the surplus funds would prejudicially affect the securities market for the reasons set out above.

- xi. *Geojit as against Rs. 71.91 crores advanced to GCPL during the financial year 2012-13, GCPL has repaid Rs. 82.51 crores (which includes opening balance of Rs. 12.50 crores) and only a balance amount of Rs. 1.93 crores was outstanding as on 31st March, 2013. Geojit has received from GCPL during the said period an amount of Rs. 3.53 crores towards interest and Rs. 1.68 crores as dividend. It is humbly submitted that the income earned by Geojit from GCPL was, in fact, much more than the loan outstanding from GCPL as on 31st March 2013.*

8. In the interest of natural justice and in terms of rule 4(3) of the SEBI and SCRA Rules, the Noticee was granted an opportunity of personal hearing on September 1, 2017, vide notice dated August 8, 2017. Vide notice dated August 14, 2017, at the request of the Noticee, the personal hearing was rescheduled to August 30, 2017. The personal hearing had to be further rescheduled to September 4, 2017 due to certain unavoidable circumstances. Mr. Binoy V Samuel, Mr. Satish Kumar Dinavahi and Mr. Romil Koshy (Authorised Representatives) appeared on the day of hearing and reiterated the submissions made vide their letter dated August 12, 2016 in reply to SCN. The AR requested a week's time to make any further submission.
9. The Noticee vide letter dated September 11, 2017 made further submissions stating, inter alia, the following:

In pursuance of Clause (ii) of sub-rule 4A of Rule 8 of SCRR, and after receiving the comments from various stock exchanges, SEBI has specified the financial requirements and norms for admission of a company as a corporate member and notified vide its circular No. SMD/SED/9012/93 dated May 14, 1993 which contained the requirements as to minimum paid up capital, maintenance of net worth, additional finance and other



requirements, multiple membership, acceptance of deposits and restrictions on employment of certain persons as director. Accordingly a corporate member shall at all times maintain a net worth i.e. the aggregate of the paid up capital plus free reserves which shall conform to capital adequacy norms as specified by SEBI. SEBI has also mentioned the non allowable assets, inter alia, includes doubtful debts and advances which shall not be taken into account. It is apparent from the foregoing, SEBI has not treated debts and advances as a lending business and therefore only excluded from the net worth.

SEBI vide its circular SMD/SED/CIR/93/22570 dated 22.10.1993 prescribed capital adequacy norms applicable to all stock brokers w.e.f 01.12.1993. SEBI in paragraph B(i) of said circular provided for calculation of capital and stipulated that doubtful debts and advances will be non allowable assets for the purpose of net worth. SEBI has specifically provided in the explanation to said paragraph that loans given to Associates will be included doubtful debts and advances. It is submitted that if the intent of SEBI is to treat the loans given to associates as a lending business, it would not have provided for an explanation which only excludes loans given to such associates from calculation of net worth instead of treating it as a disqualification for membership.

CONSIDERATION OF ISSUES AND EVIDENCE

10. I have carefully perused the charges levelled against the Noticee in the SCN, its reply and the material / documents available on record. In the instant matter, the following issues arise for consideration and determination:-

- (a) Whether the Noticee has violated the provisions of clause A(5) of the code of conduct as specified under Schedule II read with regulation 9 of Broker Regulations, Rule 8(3)(f) of the SCRR and SEBI Circular No. SMD/Policy/Cir-6/97 dated May 7, 1997?
- (b) Do the violations, if any, on the part of the Noticees attract monetary penalty under Section 15HB of SEBI Act and Section 23H of the SCRA?; and,
- (c) If so, what would be the quantum of monetary penalty that can be imposed on the Noticees after taking into consideration the factors mentioned in Section 15J of the SEBI Act; Section 23J of the SCRA read with respective Adjudication Rules?

11. Before proceeding further, I would like to refer to the relevant provisions of the Brokers Regulations, SCRR and SEBI Circular No. SMD/Policy/Cir-6/97 dated May 7, 1997:

Relevant provisions of Broker Regulations:

SCHEDULE II CODE OF CONDUCT FOR STOCK BROKERS [Regulation 9]

A. General.

- (1)
- (2)



(3)....

(4)

(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.*

Relevant provisions of the SCRR, 1957:

Qualifications for membership of a recognized 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 engages either 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, provided that—

(i) the governing body may, for reasons, to be recorded in writing permit a member to engage himself as principal or employee in any such business, if the member in question ceases to carry out business on the stock exchange either as an individual or as a partner in a firm,

(ii) in case of those members who were under the rules in force at the time of such application permitted to engage in any such business and were actually so engaged on the date of such application, a period of three years from the date of the grant of recognition shall be allowed for serving their connection with any such business,

(iii) nothing herein shall affect members of a recognized stock exchange which are corporations, bodies corporate, companies or institutions referred to in items (a) to (n) of the proviso to sub-rule (4).

Relevant extract of SEBI Circular dated May 07, 1997:

Based on the suggestions/representations received from various Stock Exchanges, SEBI has examined the applicability of Rule 8(1)(f) and 8(3)(f) of the Securities Contract (Regulation) Rules, 1957, relating to Fund Based Activities of Brokers. It has been opined that borrowing and lending of funds, by a trading member, in connection with or incidental to or consequential upon the securities business, would not be disqualified under Rule 8(1)(f) and 8(3)(f).

12. I find that the Noticee has 485 branches, sub-brokers and authorised persons and operated from 3339 terminals. The net worth of Noticee as on 31st March 2013 and 31st March 2014 was ₹ 395 crore and ₹ 315 crore and a net working capital of ₹ 202.2 crore and ₹ 104 crore respectively.



13. I note that though it was alleged in the SCN that the Noticee has lent to its subsidiaries, however I find reference only of GCPL whom it had lent ₹ 71 crores in the year 2012-13. There is no reference of any other lending by Noticee to any other subsidiary.
14. From the documents available on record, I find that the Noticee had used the surplus fund invested in BNP Paribas Mutual Fund and excess fund in the current account of Axis Bank to give loans to GCPL. I also note that there is a regular repayment of these loans by GCPL to the Noticee. Rule 8(3)(f) of SCRR prohibits a stock broker from engaging in any business other than that of securities or commodity derivatives. However, in the present case, advancing of loans to its subsidiary cannot be construed as a separate business activity. For any activity to be classified as business activity there should be several activities with several clientele. However in the instant matter, it is only one subsidiary company whom loan was advanced out of brokers own funds (over and above required networth) which was duly repaid as well, Hence lending to own subsidiary company out of own funds cannot be treated as separate business activity of a broker. I also note that generally when money was not lent to subsidiary company, it was otherwise invested in mutual funds which yielded lesser returns. Any prudent person would invest the surplus fund in a way which would entitle him to higher returns or serve business purpose. GCPL took loan from the Noticee and repaid them at an interest of 10.50% to 11.50%.
15. Moreover, "net worth" has been explained in Schedule VI (read with regulation 5(h) and 9(g) of Broker Regulations) as:
- "Explanation.- For the purposes of this Schedule, 'networth' shall mean paid up capital, free reserves and other securities approved by the Board from time to time but shall not include fixed assets, pledged securities, value of member's card, non-allowable securities (unlisted securities), bad deliveries, doubtful debts and advances (debts or advances overdue for more than three months or debts or advances given to the associate persons of the member), prepaid expenses, losses, intangible assets and 30% value of marketable securities;"*
16. From the explanation provided in the Brokers Regulations, it can be construed that the debts or advances given to the associate persons are allowed but are excluded only for the purpose of computing the net worth. Hence there is no bar on the broker to advance loans to associate persons. However, it has to be ensured that the funds that are advanced as loans are the brokers' own fund and that the clients' fund is not affected by such transactions.



17. I note there is no allegation of any investor grievance against the Noticee for the said lending to its subsidiary GCPL and there is nothing on record alleging any manipulation or fraud committed by the Noticee by aforesaid lending. Apparently there is no loss to any investor as such.
18. I note as per law there is no restriction on the inter corporate loans given by a SEBI registered intermediary. An inter-corporate loan given by a stock broker out of the surplus funds, which exceed the minimum networth requirement applicable to stock broker as well as the working capital requirement for its business, as a temporary financial accommodation would not pose the risk to the business of the stock broker and affect the clients dealing with them. The main purpose of rule 8(3)(f) of SCRR was to prohibit the brokers to invest the clients' money in other businesses. However, in the present case, there is a clear demarcation of the clients' fund and its own fund. The loan that was advanced to GCPL was the excess fund of the Noticee. In no way was the fund of the client used to advance loan to the subsidiary. The clients' money was never exposed to any risk. The Noticee extended loans from its own excess funds.
19. It is alleged that the loan that was given by the Noticee to its subsidiary was used for assisting clients whose money got blocked in the National Spot Exchange Ltd. (hereinafter referred to as "NSEL") crisis. The modus operandi adopted was to give loans to the clients of Geojit Comtrade Ltd. against assignment of their commodity trade receivables from the NSEL. I find no merit in this allegation. I find that the money advanced by the Noticee to GCPL have been used by GCPL for giving loans to clients who had transactions not only with NSEL but also with NCDEX, MCX and NMCE. Moreover, GCPL is a non-banking finance company and advanced loans against shares and commodities even prior to the establishment of NSEL. Even after the closure of NSEL in 2013, it continued to advance loans against shares and commodities. Therefore, it cannot be considered that the money advanced by the Noticee to GCPL was only to assist the clients affected by the NSEL crisis.

ORDER

20. Having considered the facts and circumstances of the case, the material available on record, the submissions made by the Noticee, I, in exercise of the powers conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the Adjudication Rules and section 23I of SCRA, hereby dispose of the SCN.



21. In terms of the provisions of Rule 6 of the Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules 1995, a copy of this order is being sent to the Noticee viz. Geojit BNP Paribas Financial Services Limited.

Date: October 31, 2017

Place: Mumbai

Sahil Malik

Adjudicating Officer



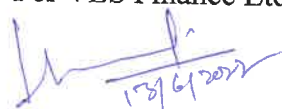
ANNEXURE-C

13/06/2022

PAYMENT CONFIRMATION IN FAVOUR OF SECURITIES AND EXCHANGE BOARD OF INDIA IS AS UNDER:

Date of payment	09/06/2022
Name of remitter	VLS Finance Ltd.
Amount remitted	Rs. 25,000/- (Rupees Twenty Five Thousand only)
Name of origin Bank	UCO Bank, Defence Colony, New Delhi-110024
UTR No.	UCBAH22160860532
Purpose for remittance	Request for Informal Guidance in the form of a No-action letter under the Securities and Exchange Board of India (Informal Guidance) Scheme 2003 as amended ("IG Scheme")

For VLS Finance Ltd.


13/6/2022

H. Consul
Company Secretary
M.No.A-11183

