WTM/SM/NRO/17018/2022-23

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: S. K. MOHANTY, WHOLE TIME MEMBER

ORDER

Under Sections 11, 11(4) and 11B (1) of the Securities and Exchange Board of India Act, 1992

In respect of:

Sr. No.	Name of Noticee	PAN
1.	F6 Finserve Pvt. Ltd.	AABCF0080D
2.	F6 Commodities Pvt. Ltd.	AACCF1155G
3.	Pankaj Goel	ACTPG7828D
4.	Meenu Goel	AFSPG7531F
5.	Asha Sharma	AWHPS6616H
6.	Parveen Sharma	ACDPS3164Q
7.	Sanjay Anand	AADPA9398N
8.	Kavita Anand	ABHPA9289M
9.	Deepak Goel	ADEPG1122G
10.	Ruchika Goel	AIAPG7306B

(The entities mentioned above are individually known by their respective names or Noticee No. and collectively referred to as "Noticees")

In the matter of F6 Finserve Pvt. Ltd. and Others

Background

1. Securities and Exchange Board of India (hereinafter referred to as **"SEBI"**) had received an email dated July 27, 2017 from National Stock Exchange of India Ltd. (hereinafter referred to as **"NSE"**) regarding the inspection carried out by NSE of its trading member, F6 Finserve Pvt. Ltd. (hereinafter referred to as **"F6 Finserve"**) wherein NSE had observed certain irregularities and certain non-compliances with the applicable regulations / circulars. Noticing the above, an inspection was ordered by SEBI, focus of which was to understand the practices and systems put in place by F6 Finserve with regard to its activities of stock broking operations and related compliance with SEBI regulations and circulars.

2. Simultaneously, considering the gravity of the *prima facie* findings of NSE, SEBI vide an *Interim Order* dated May 29, 2018 *inter alia* had restrained F6 Finserve, F6

Commodities Pvt. Ltd. (hereinafter referred to as "**F6 Commodities**"), Mr. Pankaj Goel, Mr. Parveen Sharma, Ms. Meenu Goel, Mr. Sanjay Anand, Ms. Kavita Anand, Ms. Asha Sharma, Mr. Deepak Goel and Ms. Ruchika Goel from accessing the securities market and further prohibited them from buying, selling or dealing in securities, directly or indirectly, in any manner whatsoever, till further directions. The *Noticees* were also directed to cease and desist from undertaking any activity in the securities market, directly or indirectly, in any manner whatsoever till further directions.

3. Subsequently, post decisional hearing was granted to the *Noticees* and after considering their submissions, both oral and written, it was thought fit and proper to continue with the directions issued under the *Interim Order* and the same was directed vide a *Confirmatory Order* dated December 14, 2018.

Findings of Inspection, Show Cause Notice, Reply and Hearing

4. SEBI conducted the inspection of F6 Finserve's broking activities for the period between April 1, 2015 and August 10, 2017 (hereinafter referred to as "**Inspection Period**"). The findings of the said inspection (illustrative in nature and are not all-inclusive) are as follows:

4.1. It was observed that on 10 instances (out of 75) F6 Finserve had made wrong reporting of margins to the Exchange.

4.2. It was observed that F6 Finserve had not settled funds aggregating to INR 1.43 Crore of its 891 clients, who did not trade during the period between January 1, 2017 and March 31, 2017.

4.3. Client funds were mis-utilised to pay either to other clients or were transferred to the business account of F6 Finserve or were paid to Mr. Pankaj Goel (Director of F6 Finserve). Further, on a sample of 12 dates during the inspection period, funds lying across all the client bank accounts and the cash collateral lying with Exchanges, were less than the gross creditors (clients) indicating clear shortage of clients funds with the broker.

4.4. There were instances where F6 Finserve had not segregated its own securities from its clients' securities. It was observed that the securities of clients were

transferred to pool account for settlement of F6 Finserve's own obligation and obligations of client from the Margin Beneficiary account (1207770000000041). Further, on certain instances, shares were received for settlement of proprietary obligations from client beneficiary account.

4.5. It was observed that F6 Finserve had not maintained *inter-se* client segregation of securities.

4.6. F6 Finserve had pledged its client securities with IL&FS, ICICI Bank, Edelweiss Finance and Canara Bank to avail overdraft facility.

4.7. As on December 7, 2018, a total of 452 investor complaints were pending against F6 Finserve.

4.8. F6 Finserve failed to provide complete information/data to the inspection team sought from it during inspection.

5. During inspection it was observed that F6 Finserve and F6 Commodities are connected with each other on the basis of same registered office and common Promoter-Directors namely Mr. Pankaj Goel and Ms. Meenu Goel. It was also noted that F6 Commodities had aided and abetted F6 Finserve in mis-utlization of client funds by receiving funds of INR 1.04 Crore belonging to the clients of F6 Finserve. Moreover, F6 Commodities had failed to redress 41 investors' grievances on SCORES.

6. Based on the afore stated findings brought out during inspection, a common show cause notice dated March 31, 2021(hereinafter referred to as "**SCN**") was issued to the *Noticees* alleging that F6 Finserve as well as its Directors and F6 Commodities and its Directors had allegedly violated the following provisions of law:

- SEBI Circular no. SMD/SED/CIR/93/23321 dated November 18, 1993
- SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
- SEBI Circular no. MIRSD/SE/Cir-19/2009 dated December 3, 2009.
- Clause 33 of Rights and Obligations document for Stock Broker, Sub-Brokers and Clients as prescribed in Annexure 4 of the SEBI Circular no. CIR/MIRSD/ 16/2011 dated August 22, 2011.

- Sections 12A (a), (b) and (c) of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "**SEBI Act**").
- Regulations 3(a), (b), (c) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**").
- SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011
- SEBI Master Circular No. CIR/DNPD/1/2012 dated January 02, 2012
- NSE Circular No. NSE/INSP/19583 dated December 14, 2011.
- SEBI Circular no. CIR/MRD/ICC/30/2013 dated September 26, 2013
- Conditions of registration as specified under Regulation 9(e) of the Stock Brokers SEBI (and Sub Brokers) Regulations, 1992.
- Regulation 21 of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.

7. In view of the above, *Noticees* were called upon to show cause as to why suitable directions under Sections 11(4) and 11B (1) of SEBI Act should not be issued against them for the violations alleged herein above.

8. It is noted from the records that the SCN was delivered to the *Noticees No. 5* to *8* through email, whereas for the rest of the *Noticees*, viz., *Noticees No. 1* to *4* and *9* to *10,* the notice had to be served by way of affixture. In response to the SCN, *Noticees No. 5* to *8* submitted their replies to the SCN. The contention of these *Noticees* are summarised herein below.

9. *Noticees No. 7* and *8* namely, Mr. Sanjay Anand and Ms. Kavita Anand vide their email dated April 24, 2021 have submitted letters dated April 21, 2021 wherein they have denied all the allegations levelled against them in the SCN and additionally *inter alia,* have submitted as follows:

9.1. They have not received the annexures attached to the SCN and forensic audit report which has hindered their ability to submit a detailed reply to the SCN.

9.2. SCN has been issued without realizing and understanding the nature of association and involvement of *Noticees No. 7* and *8* with F6 Finserve or with other named *Noticees* in the SCN and the extent of control that they had over the affairs of F6 Finserve.

9.3. *Noticees No. 7* and *8* themselves are victim of serious and grave offence of criminal breach of trust, abetment, cheating, dishonesty and fraud committed by the Managing Director of F6 Finserve, Mr. Pankaj Goel. The same proves that *Noticees No. 7* and *8* had no role whatsoever with respect to the alleged non-compliances as recorded in the SCN.

9.4. *Noticees No. 7* and *8* had no say in the affairs of F6 Finserve and were not involved in any decision taken by the management. *Noticees No. 7* and *8* were merely associated with F6 Finserve in the capacity of Non- Executive Directors. It was only Mr. Pankaj Goel who was solely responsible for managing the affairs of F6 Finserve and F6 Commodities.

9.5. *Noticees No. 7* and *8* had resigned from the affairs of F6 Finserve, much before any action was brought about by SEBI. Further, at no point during the limited and restricted association of *Noticees No. 7* and *8* with F6 Finserve, SEBI had either reached out to *Noticees No. 7* and *8* or had involved *Noticee Nos. 7* and *8* in its investigation or made *Noticees No. 7* and *8* know of any such investigation or alleged violations.

9.6. As per Section 149 of the Companies Act, *Noticees No. 7* and *8* can only be held liable in case of acts which have occurred with their knowledge and were attributable to them through the Board process and such acts must have occurred with their consent or connivance. SEBI has not been able to prove any of the aforesaid elements.

9.7. SEBI itself has *prima facie* observed and recorded the involvement of Mr. Pankaj Goel and Ms. Meenu Goel for all the alleged wrongdoings. Further, all responsibilities and liabilities, whether past or present, have been assumed by Mr. Pankaj Goel for all the transactions and business carried out by F6 Finserve.

9.8. *Noticees No. 7* and *8* did not derive any benefit from their association with F6 Finserve. On the other hand, they have been dispossessed from the ownership of their own residential property which they were fraudulently induced by Mr. Pankaj Goel to mortgage, so that F6 Finserve and F6 Commodities can avail loan facility from Kotak Mahindra Bank. Mr. Pankaj Goel has also defrauded *Noticees*

No. 7 and *8* of their hard earned money which he took in the form of loans or advances for his personal and F6 Finserve's use.

9.9. *Noticees No. 7* and *8* have filed criminal complaint against Mr. Pankaj Goel which is being investigated by EOW, Gurugram Police and have also filed complaint under Section 138 of Negotiable Instruments Act, 1881.

10. *Noticees No. 5* and *6* namely, Ms. Asha Sharma and Mr. Parveen Sharma vide an email dated May 27, 2021 submitted a common letter wherein they have denied all the allegations levelled against them in the SCN and *inter alia* have submitted as follows:

10.1. Ms. Meenu Goel and Ms. Asha Sharma have been friends since childhood. Sometime in 2013, *Noticee No. 3* approached *Noticees No. 5* and *6* requesting for a personal loan on behalf of *Noticee No. 1* and for him as well. After much persuasion by *Noticee No. 3*, *Noticees No. 5* and *6* agreed to lend some amount to *Noticee No. 3* only on the pretext and promise that the said loan amount would be returned to them. Owing to the personal relation, no loan agreement was signed between them. Between the period 2013 and 2016 an amount of INR 49,80,000 was loaned by *Noticees No. 5* and *6* to *Noticee No. 1* and *3.*

10.2. In 2016, when *Noticee No. 6* approached *Noticee No. 3* for the repayment of the loan amount, *Noticee No. 3* in lieu of non-payment of loan amount, offered *Noticees No. 5 and 6,* a position as Non-Designated Directors in *Noticee No. 1* along with shareholding in *Noticee No. 1*. Unaware about the intentions of *Noticee No. 3* or the sick position of *Noticee No. 1* and only with the intent to have their monies back, they agreed for the same.

10.3. On April 11, 2016, *Noticee No. 6* had approached *Noticee No. 3* regarding issuance of shareholding to *Noticees No. 5 and 6* in *Noticee No. 1* as orally promised at the time of lending. However, *Noticee No. 3* informed *Noticees No. 5* and *6* that he would be soon going for listing of *Noticee No. 1* and that *Noticees No. 5* and *6* both would get 5% shareholding in *Noticee No. 2*.

10.4. *Noticee No. 3* had also suggested to *Noticee No. 5* that *Noticees No. 5* and *6* should pool in their properties (2 in nos.) as was done by the other Directors for the reason of having better valuation of shares to be listed shortly and in the

process, fraudulently got their two properties mortgaged with Kotak Mahindra Bank Ltd. They were persuaded that the pooling of properties would lead to an enhancement of net worth of *Noticee No. 1,* which will consequently lead to better and enhanced valuation of shares in the coming IPO. It was also promised by *Noticee No. 3* that post the IPO, he would return the money owed by him in instalments or *Noticees No. 5* and *6* would get the same, in the form of equity in the proposed listed entity.

10.5. After much persuasion from *Noticee No. 3* and after misrepresentation by officials of Kotak Mahindra Bank Ltd., *Noticees No. 5* and *6* handed over their properties documents to Kotak Mahindra Bank Ltd. for the daily settling overdraft banking facility availed by *Noticee No. 1* on May 31, 2016. The bank officials had assured *Noticee No. 5* that they would provide him a copy of all the signed bank documents for his record, however, he was given none in spite of follow up.

10.6. It is pertinent to mention here that *Noticee No. 6* is a Merchant Navy officer. Considering the nature and demand of his profession, he was required to spend 7-8 months in a year on ship and it was not practically possible for him to sign documents every other day as per need and requirement. Taking advantage of the same, *Noticee No. 3* got a few extra papers signed from him on the pretext of increasing the overdraft facility.

10.7. *Noticee No. 5* joined *Noticee No. 1* and assisted the online application development. Even though *Noticees No. 5* and *6* were Directors of *Noticee No. 1,* they had never attended any Board meetings or have signed any board resolutions or were ever involved in any day to day functioning or managing the affairs of the *Noticee No. 1*. Further, during their tenure with *Noticee No. 1*, they were never paid any salary. In the entire process, they are victim of the fraud as they have ended up not only with losing their properties but also their hard earned money as they even did not get 5% shareholding in *Noticee No. 2*.

10.8. Kotak Mahindra Bank Ltd. had asked *Noticees No. 5* and *6* to repay a loan of approx. INR 21 Crore, as they were made personal guarantors. *Noticees No. 5* and *6* had never signed any documents knowingly as personal guarantors and thus,

the two have become victim of fraud perpetrated by *Noticee No. 3* along with officials of Kotak Mahindra Bank Ltd. To substantiate the above submission, *Noticee No. 5* vide her letter dated February 25, 2019 has made a complaint with the RBI, against Kotak Mahindra Bank Ltd. Further, an FIR No. 0389/2019 dated August 26, 2019 at PS IGI Airport is lodged against the aforesaid entities.

10.9. *Noticees No. 5* and *6* being Non-Executive Directors did not have any decision making power. They have neither attended any board meetings nor had any professional expertise to deal with the day to day functioning of *Noticee No. 1*. They had no knowledge about the daily functioning of *Noticee No. 1*. *Noticee No. 3* had the decision-making power and used to sign all the documents pertaining to *Noticees No. 1* and *2*.

11. After receipt of the aforesaid written replies, a personal hearing in the instant matter was fixed on February 15, 2022 vide hearing notice dated December 24, 2021. The said hearing notice along with the SCN was published in newspapers on January 5, 2022 for *Noticees No. 1* to *4* and *9.* For *Noticee No. 10* hearing notice was published on February 3, 2022 while for the remaining *Noticees,* the hearing notice was served through email. *Noticees No.* 7 and *8* vide their email dated February 9, 2022 requested to consider their written submissions in the matter and waived off their right to avail the opportunity of personal hearing.

12. On the day of the scheduled hearing, *Noticees No. 1* to *4* and *9* to *10* failed to appear for the hearing either in person or through their Authorised Representative. The personal hearing scheduled for February 15, 2022 *qua* Mr. Praveen Sharma and Ms. Asha Sharma was rescheduled to March 2, 2022. On March 2, 2022, Mr. Praveen Sharma and Ms. Asha Sharma personally appeared for the hearing via Webex. They reiterated their submissions made in their reply dated May 27, 2021. Further certain queries / documentary evidence was sought from them at the time of hearing for which they were granted time till March 14, 2022.

13. *Noticees No. 5* and *6* vide their common letter dated March 14, 2022 once again emphasised that they were the victims of fraud perpetuated by *Noticee No. 3* in collusions with bank officials of Kotak Mahindra Bank Ltd. and *inter alia,* have submitted the following documents / information:

13.1. Bank Statement of *Noticee No. 6* to show transfer of loan amount to *Noticees No. 1* and 3 and receipt of a portion of loan amount from *Noticee No. 3*.

13.2. Copy of Passport pages showing that intermittently *Noticee No. 6* was not in India during the period 2017-2018.

13.3. Notices issued by Duty Magistrate to take possession of the properties of *Noticees No. 5* and *6* fraudulently put in mortgage by the *Notice No. 1*.

13.4. Demat statement of *Noticee No. 6* for the period 2000-2020 showing lack of trading activity in the securities market and transaction statement for the period March 2019 for *Noticee No. 5* showing lack of trading activity in the securities market for her in that month.

13.5. The current status of the proceedings for which the FIR was filed by *Noticees No. 5* and *6* is that the matter is under investigation by EOW.

14. Vide an email dated March 14, 2022 certain information and documents were also sought from *Noticees No. 7* and *8.* In response to the said email, *Noticees No. 7* and *8 inter alia* submitted the following vide emails dated March 24, 2022:

14.1. Ledger statements reflecting all transfer of funds to F6 Finserve and *Noticee No. 3*.

14.2. CSDL statement and BSE Fund balance statement as on October 31, 2017 showing their trading history in various scrips.

14.3. Auction Notice of Kotak Mahindra Bank Ltd. dated September 28, 2021 for their property.

14.4. *Noticee No. 3* has been declared as proclaimed offender by the Ld. Court of Sh. Girraj Singh, JMFC, Gurugram Courts, Gurugram vide its order dated February 24, 2022 in Complaint case no. 25735 of 2018 titled, *Sanjay Anand* vs. *Pankaj Goel*.

14.5. Income statement for FY 2014-15.

Consideration of Issues and Findings

15. I note from the records that out of the 10 *Noticees, Noticees No. 1* to *4 and 9* to *10* have neither filed any reply to the SCN nor have availed the opportunity of personal hearing

granted to them. Further, only *Noticees No. 5* and *6* have submitted their written submissions and have availed the opportunity of the personal hearing granted to them. The remaining 2 *Noticees* i.e., *Noticees No. 7* and *8* though have made written representation but have waived their right of personal hearing in the extant matter. It will be appropriate here to note that the findings in the inspection report are based on analysis of samples and test checking of various books and other records maintained by *Noticee No. 1*, as well as the written/oral information furnished by the *Noticee No. 1* and its officials during the inspection. Consequently, the instances of irregularities/observations pointed out in inspection report are illustrative in nature and are not all-inclusive. In the light of the aforesaid factual position, I proceed to adjudicate the matter, based on materials available on record and the written replies and submissions filed by few of the *Noticees,* the contents of which have already been highlighted in the preceding paragraphs. After going through all the material, as aforesaid, available on record, I find that essentially, following issues arise for determination in the present matter:

15.1. Whether F6 Finserve and F6 Commodities have violated various provisions of the SEBI Act, Rules, regulations and circulars issued by SEBI from time to time relating to broking operations?

15.2. If answer to the aforesaid question is in affirmative, whether the conduct of the *Noticees No. 3* to *10* have resulted in the violation of the applicable provisions of securities law, as alleged in the SCN?

15.3. Whether directions, if any, needs to be issued against the *Noticees*?

16. Before adverting to the aforesaid issues, I would like to first deal with certain preliminary issues raised by the *Noticees No. 7* and *8*, in their submissions. The first such preliminary contention is that they have not received the annexures to the SCN and the forensic audit report. In this regard, I note that the aforesaid documents were sent to the last known address of the *Noticees No. 7* and *8* and the same have not returned undelivered. Thus, the service of the SCN was deemed to be effective. However, subsequent to receipt of replies from *Noticees No. 7* and *8*, vide an email dated April 26, 2021, *Noticee No. 8,* Ms. Kavita Anand was provided with all the annexures to the SCN including the forensic audit report.

17. *Noticees No. 7* and *8* have also contended that SEBI at the time of inspection neither reached out to the *Noticees No. 7* and *8* nor involved them in the inspection. I have considered the above objection taken by the *Noticees*. I note that the manner and the methodology of inspection is the regulatory prerogative of SEBI and the course of the said inspection would be charted out, depending upon the facts and circumstances of the case. In the instant matter, the focus of the inspection was to examine the practices and systems put in place by *Noticee No. 1* with respect to its operations and related compliances. To that effect, it was deemed fit to analyse on a sample basis, the internal audit reports and other records maintained by *Noticee No. 1* at its office. In addition to this, the inspecting team did interact with the officials of *Noticee No. 1* who had first-hand knowledge of maintaining the aforesaid records viz., the Compliance Officer and the Manager-Back Office Operations. Further, *Noticee No. 1* was also involved in the inspection exercise, as data/information was sought from it. Moreover, *Noticees No. 7* and *8* being part of the Board of *Noticee No. 1*, cannot feign ignorance of the Regulatory inspection that was carried out at the premises of *Noticee No. 1* or about the submissions made by *Noticee No. 1* to the Regulator during inspection. I also note that the allegations against *Noticees No. 7* and *8* are with respect to their role in *Noticee No. 1* and therefore it was deemed fit to carry out inspection focusing on the activities of *Noticee No. 1*. Furthermore, there is no mandate to inform or seek information from each and every *Noticee* during inspection since principles of natural justice are satisfied by granting the *Noticees* ample opportunity to defend themselves once the extant proceedings were initiated. *Noticees No. 7* and *8* have also not shown how their ability to make a detailed submission in the extant matter was hampered by not involving them at the time of inspection of *Noticee No. 1* by SEBI. Be that as it may, as stated above, the scope and focus of the inspection of *Noticee No. 1* was such that it did not require the involvement of *Noticees No. 7* and *8* at the time of inspection. Thus, the aforesaid submission of *Noticees No. 7* and *8* is devoid of any merit.

18. Now I proceed to delve into the merits of the case by addressing the issues raised in the preceding paragraphs in order to adjudge the charges levelled against the *Noticees* in the SCN.

19. The first issue to be addressed is as follows:

Whether F6 Finserve and F6 Commodities have violated various provisions of the SEBI Act, SCRA, Rules, regulations and circulars issued by SEBI from time to time relating to broking operations?

20. As noted in the beginning of the present Order, neither F6 Finserve nor F6 Commodities and / or any Authorised Person on behalf of them has replied to the allegations levelled in the SCN with respect to the findings of inspection. Nevertheless, I proceed to examine as to whether the facts unearthed during the course of the inspection, support the allegations levelled in the SCN against F6 Finserve and F6 Commodities.

21. The findings of the inspection are as follows:

21.1. Wrong reporting of Margin Collection

The applicable provisions of securities laws related to Margin Collection by the stock broker are as follows:

- SEBI circular CIR/DNPD/7/2011 dated August 10, 2011- This circular deals with short-collection/non-collection of client margins by the stock broker in equity and currency derivatives segments.
- SEBI master circular No. CIR/DNPD/1/2012 dated January 02, 2012 – This master circular deals with matters relating to Exchange Traded Derivatives.
- NSE circular No. NSE/INSP/19583 dated Dec 14, 2011 – This circular deals with short-collection/Non-collection of client margins.

During the course of inspection, it was observed that, on a sample basis, in the following 10 instances out of 75 instances (13.33%), F6 had made wrong reporting of margins to the Exchange:

Table No. 1

Date	Client Code	Margin collected	Minimum Margin Required by Exchange	Margin Reported as Collected as per response provided by F6	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

From the above table, I note that F6 Finserve has not only failed in collecting the required margin from its clients against their dealings in the securities market across segments but also has indulged in wrong reporting of the collection of margins. The above in turn has resulted in shortfall in margin collection as well as the consequent wrong reporting of margin collection to the Exchange. In this regard, I note that the growth of any financial market flows from its integrity and fair play. Therefore, to pre-empt any market failure and to protect investors, proper margin collection and reporting is an indispensable tool of a comprehensive Risk Management System, as any failure in proper margin collection and reporting could jeopardize and put at high risk, the entire settlement system leading to a cascading effect on the entire market. Therefore, the rules, procedures and operational aspects of margin collection and its expeditious and correct reporting have to be strenuously followed by each and every person associated with the securities market not only for protecting the interest of investors but also to ensure the market integrity.

The issue of wrong reporting of margin collection to the Exchange is not a question of law but is a determination of a fact. In the present matter, it is noted that on a sample basis, the proportion of wrong reporting was found to be at 13.33% and the same had happened on multiple occasions in a single month as well as across months. The aforesaid data viz. the proportion of wrong reporting and its frequency, *per se* is of serious consequence and assumes even greater significance when it is extrapolated to the other clients of F6 Finserve which runs into thousands (approx. 1500 clients in NSE Cash segment) and considering its trading turnover,

which in 2017-2018 (till August 2018) was INR 1,29,421 crore. The afore stated short collections of margin and wrong reporting of the same to the system i.e. to the Exchange on a regular basis need to be seen seriously. As stated above, by not collecting the required margin from its clients and then wrongly reporting to the Exchange that it had collected all the margins, F6 Finserve has given an excessive exposure to its clients without any means to support such exposure and in the process, has engaged knowingly in activities that have endangered and compromised the integrity of the capital market. Such actions of F6 Finserve is disruptive to the system. Therefore, I find that F6 Finserve has failed in its duty to correctly report the margins collected by it from its clients to the Exchange, thereby jeopardizing and undermining one of the essential tools of risk management in the capital market, which has led to the violation of the aforesaid SEBI circulars and NSE circular.

21.2. Non-settlement of funds of clients

Before proceeding, I would like to refer to the applicable provisions of SEBI circulars which read as under:

SEBI Circular no. MIRSD/SE/Cir-19/2009 dated December 03, 2009

Running Account Authorization

…

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

…

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

statement shall also explain the retention of funds/securities and the details of the pledge, if any.

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

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

It was noted at the time of inspection that F6 Finserve had not settled funds aggregating to INR 1.43 crore of 891 clients who had not traded during the period, January 1, 2017 to March 31, 2017. The consolidated details of total number of in-active clients whose fund/securities were not settled for the period June 2015 to March 2017, are as under:

Table No. 2

Quarter Ended	**Quarter Ended**	**No. of UCCs whose balances have remained same on last dates of successive quarters**	**Inactive Not Settled**	
			Maximum Amount	**Credit Balance not settled (in INR)**
Jun-15	Sep-15	401	2498956	10,06,659
Sep-15	Dec-15	535	974503	66,98,402
Dec-15	Mar-16	504	974503	32,28,246
Mar-16	Jun-16	287	974503	26,90,921
Jun-16	Sep-16	258	124093	17,71,281
Sep-16	Dec-16	886	1997399	1,49,09,587
Dec-16	Mar-17	891	1997399	1,43,31,406

I note that as per SEBI circular dated December 3, 2009, the actual settlement of funds and securities has to be done by the stock broker, at least once in a calendar quarter or in a month, depending on the preference of the client. However, it is

observed from the above 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 circular dated December 3, 2009 specifically required 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, F6 Finserve instead of taking steps to comply with the mandatory provisions of SEBI circular dated December 3, 2009, was progressively defaulting in its obligations to comply with the circular. It is pertinent to note that by not receiving the statement of account on time as stipulated by SEBI Circular, the clients were kept in dark with respect to the state of affairs in their running accounts maintained with the stock broker, giving rise to the possibility of unauthorised trading by employees, authorized persons, etc. of the stock broker from the accounts of these inactive clients. Clients, whether active or inactive, are entitled to receive the settlement statement periodically as per their preference. This is a prudential norm prescribed by SEBI in the interest of investors so that their funds are not kept unsettled by the stock broker for indefinite periods on any pretext. I note that the aforesaid circular was issued with a view to instill greater transparency and discipline in the dealings between the clients and the stock brokers and to protect the interests of investors in the securities market. The objective of the mandatory provisions of the circular is to keep the investor informed about his/her account, so as to curb any misutilization of funds, thereby safeguarding the integrity of the market which in the instant case, has been completely disregarded by F6 Finserve. Hence, I find that the above acts of omission by and on behalf of F6 Finserve have been committed in violation of clause 12 (e) of SEBI Circular no. MIRSD/SE/Cir-19/2009 dated December 3, 2009 and clause 33 of Rights and Obligations document for Stock Broker, Sub-Brokers and Clients as prescribed in Annexure 4 of the SEBI Circular no. CIR/MIRSD/ 16/2011 dated August 22, 2011.

21.3. Misutilisation of client funds

Here, before proceeding on the above allegation, it would be pertinent to refer to the relevant provisions of the SEBI circular no. SMD/SED/CIR/93/23321 dated November 18, 1993 and SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016. The same reads as under:

SEBI Circular dated November 18, 1993

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

SEBI Circular dated September 26, 2016

1. SEBI constituted a committee on "Enhanced Supervision of Stock Brokers", which included representatives from Stock Exchanges, Depositories and Brokers. With a view to implement the recommendations, the guidelines as Annexed to this circular are being issued. These guidelines cover the following broad areas:

I. Uniform nomenclature to be followed by stock brokers for Naming/Tagging of Bank and Demat Accounts and the reporting of such accounts to the Stock Exchanges/Depositories.

II. Monitoring of Clients' Funds lying with the Stock Broker by the Stock Exchanges, through a sophisticated alerting and reconciliation mechanism, to detect any misutilisation of clients fund.

III. Changes in the existing system of internal audit for stock brokers/depository participants viz. appointment, rotation of Internal Auditors, formulation of objective sample criteria, monitoring of quality of Internal Audit Reports, timeline for submissions of Internal Audit Reports, etc.

IV. Monitoring of Financial Strength of Stock Brokers by Stock Exchanges so as to detect any signs of deteriorating financial health of stock brokers and serve as an early warning system to take preemptive and remedial measures.

V. Imposition of uniform penal action on stock brokers/depository participants by the Stock Exchanges/Depositories in the event of non-compliance with specified requirements.

VI. Other Requirements:

a. Uploading client's funds and securities balances by Stock Brokers to Stock Exchange System and onwards transmission of the same to the clients for better transparency.

b. Clarification on Running Account Settlement

c. Providing PAN details of Directors, Key Management Personnel and Dealers, to Stock Exchanges and any change thereof.

2. The Stock Exchanges/Depositories are directed to:

a. bring the provisions of this circular to the notice of the Stock Brokers/depository participants and also disseminate the same on their websites.

b. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above directions in co-ordination with one another to achieve uniformity in approach.

c. communicate to SEBI, the status of the implementation of the provisions of this circular in their Monthly Development Reports.

In order to arrive at the findings of misuse of clients' funds by F6 Finserve, the following information/data were gathered and perused during the course of inspection:

- Total funds balance available in all Client Bank Accounts.
- Aggregate value of collaterals deposited with clearing corporations and/or clearing member.
- Aggregate value of Credit Balances of all its clients.
- Aggregate value of Debit Balances of all its clients.

I understand that the total funds of credit balance clients ("C") shall be available either with the stock broker in the clients' bank accounts ("A") or / and as collaterals deposited with clearing corporations and/or clearing member ("B"). I understand that A+B should never be less than C. I understand that if A+B (as mentioned above) is less than C, it would decidedly 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.

In the instant matter following data was collected by the inspection team:

Table No. 3

Date	Fund balance available in Client Bank Accounts	Collateral deposited with clearing corporation and/or clearing member	Credit balance of all clients	G=(A+B)-C	% of Credit Funds Misused to Total Credit Balance
	A	B	C		
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%

Table No. 4

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

Date	Client fund misused (G) (Absolute value of G)	Debit balance client (D)	Funds Misused for Debit Balance Clients
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

It is observed from table no. 3 that, there were 12 such days (on a sample basis) on which the misutilisation of the clients' funds by F6 Finserve is evident from the fact that the aggregate of total credit balances of the clients of F6 Finserve, was higher than the funds available with F6 Finserve. The misutilisation of the clients' funds by F6 Finserve 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%.

Further, on comparing the misutilization of credit balances of clients' fund with the debit balances of clients on the aforesaid 12 sample days, as depicted at table no. 4, it is observed that F6 Finserve has used the funds of its credit balance clients for the benefit of its debit balance clients or for its own purpose.

It was also noted at the time of inspection that on 33 instances, funds received from the clients aggregating to INR 17.03 crore were transferred to the Business Account of F6 Finserve (Kotak Mahindra Bank Ltd.: A/c No. - 7511370042) which is an overdraft account. Further, on certain instances, the funds received from the clients were paid to other clients of F6 Finserve and were also used to pay Mr. Pankaj Goel, *Noticee No. 3* (Promoter - Director of F6 Finserve). Few of the aforesaid instances are demonstrated in the following table:

Table No. 5

Amount in INR	Client Name	Date of Transfer to Overdraft Business Account	Amount Transferred in OD A/c in INR	Remarks
90,00,000	TR Metals	16.07.2015	90,25,000	INR 90,00,000 is received in Client A/c (028) on 16.07.15. INR 9,019,000 is then transferred to Settlement A/c (011) on 16.07.15. INR 9,025,000 is transferred to Business A/c (042) on 16.07.15
95,00,000	TR Metals	13.08.2015	65,00,000	INR 95,00,000 received in Client A/c (028) on 13.08.15. At the time balance of Client A/c was INR 31,488. INR 12 lakh is paid to other clients. INR 65,00,000 is transferred to Settlement A/c (011) on 13.08.15. These funds are then transferred to Business A/c (042).
90,00,000	Manish Bansal	25.05.2017	48,30,000	Funds are received in Client A/c (028). INR 91,00,000 is transferred to Settlement A/c (011). These funds are then transferred to Business A/c (453). Out of these funds, INR 15,00,000 is transferred to Mr. Pankaj Goel and INR 48,30,000 is transferred to Business A/c (042).
55,00,000	Abhishek Gupta	05.06.2017	23,89,000	Funds from Client A/c – INR 5,000,000 is transferred to Settlement A/c (011). These funds are then transferred to Business A/c (453). INR 2,389,000 is then transferred to overdraft A/c (042) and INR 2,000,000 is transferred to ECL Finance.

25,00,000	Madhu Gupta	07.06.2016	11,19,000	Funds from Client A/c (698) are transferred to Client A/c (753) which are then transferred to Client A/c (035) and then to Settlement A/c (066). The funds are then transferred to Business A/c (439). Out of these, INR 13 lakh is transferred to Mr. Pankaj Goel and INR 1,119,000 to Business A/c (042).

From the aforesaid table, I note from the funds flow that post receipt of funds from clients, it is transferred, either in whole or in part, to the Settlement Account from where, it is transferred either to the business account of F6 Finserve which is an overdraft account or is transferred to other clients' account of F6 Finserve or is transferred to Mr. Pankaj Goel. The pattern of funds flow and its intended recipients, unequivocally show that F6 Finserve has been misutilising the funds of its clients for the purposes other than that of the clients who are the source of the funds.

I note that the measure taken by SEBI (provisions of the circular) is intended to increase transparency in fund / client management by the stock brokers. The funds in the client's accounts cannot be applied for any purpose other than what is permissible under SEBI rules and regulations. 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. The aforesaid actions of F6 Finserve wherein, the stock broker is transferring the funds of one client to the other or to its Promoter - Director, as per its own convenience without paying any heed to its obligation to maintain separate account for its client and for itself (proprietary account), cannot be viewed leniently. Thus, I find that F6 Finserve has grossly violated the provisions of SEBI circular no. SMD/SED/CIR/93/23321 dated November 18, 1993 and SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

21.4. Non-segregation and misutilisation of client securities

As per SEBI circular no. SMD/SED/CIR/93/23321 dated November 18, 1993, 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.

During the course of inspection, it was observed from the demat ledger of the proprietary account of the *Noticee No. 1* that in certain instances, the securities were not available in the Demat ledger of the proprietary account when F6 Finserve had sold shares. The details of such instances are as follows:

Table No. 6

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

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. 7

Trade Date	Scrip	Qty traded in Pro A/c	Shares credited in Pool A/c (016)	Remarks
8/9/2016	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)
9/9/2016	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)
9/9/2016	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)
5/4/2017	Harrisons Malayalam	2300	3003 shares transferred from Margin Ben	3003 shares settled. 3003 shares received in Margin Ben A/c from IN30135630000419
5/4/2017	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)
5/4/2017	Texmo Pipes	1499	1499 shares transferred from Margin Ben	1499 shares settled. Shares received in Margin Ben A/c from client A/c (IN301356 30000419)

Moreover, it was further observed from the demat transaction statement of the Margin Beneficiary account of the stock broker that in addition to the above irregularities, the *Noticee No. 1* has also indulged in activities wherein the securities received from one client were noticed to have been transferred by the stock broker to another client. The details of few such instances are as under:

Table No. 8

Date	Scrip	Shares received from client	Qty. Received	Shares Transferred to client	Qty. Transferred
28/6/2016	Raj Television	Shares received in Demat A/c from Client Ben A/c	Opening balance of 143674	Off market transfer to Dilipkumar Sharma (client ID- HODS4; DP A/c-1207770000025191)	35000
4/7/2016	Raj Television	Timeplus Securities And Services Ltd. (client id D108TS1- , DP A/c-1207770000025436)	35000	Dilipkumar Sharma (client ID- HODS4; DP A/c-1207770000025191)	35000
5/8/2016	Raj Television	Shares received in Demat A/c from Client Ben A/c	Opening balance of 138109	Off market transfer to DP A/c (1207770000025396)	138109

Thus, from the aforesaid tables, it is noted that on multiple occasions, F6 Finserve has used its clients' securities for settlement of its own obligations and has transferred securities *inter se* between its clients. The numerous instances as noted above which has taken place across months, shows that using client's securities for meeting its own obligations or meeting obligations of its other clients, was not a one time matter or an inadvertent error on the part of the stock broker, rather, F6 Finserve was habitually doing it, in blatant disregard to SEBI circular dated November 18, 1993. Such actions of F6 Finserve, of not keeping separate accounts for client's securities from its own proprietary account and using client's securities to meet its own obligation and obligations of its other clients in the market, not only audaciously defies the transparency that SEBI is trying to achieve through its circular in handling of client's securities by the stock broker's, but also has caused a severe blow to the confidence of the investors in the securities market and at the same time it has also compromised the integrity of the market. Such actions of F6 Finserve have to be viewed seriously. As noted above, no explanation has been furnished rebutting or disputing the above findings of the inspection and the allegations made in the SCN, thereby constraining me to record that the aforesaid acts on the part of the F6 Finserve of using clients' securities either for its own benefit or for the beneficial interest of

its other clients, have violated the provisions of SEBI circular dated November 18, 1993.

21.5. Loan against securities

It will be relevant here to reproduce the applicable provisions:

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.

It was noted during inspection that F6 Finserve had pledged its client securities with ICICI Bank Ltd., Edelweiss Finance Ltd. and Canara Bank Ltd. to avail overdraft facility. From the data submitted by F6 Finserve during inspection, it was observed that as on October 5, 2017, F6 Finserve had pledged securities of its 1,116 clients. Some of the instances are reproduced hereunder:

Table No. 9

Scrip	Client Code	No. of Shares	Pledged Shares
Jain Irrigation Systems Ltd.	FX100138	476	466
SJVN Ltd.	D198KG1	1,500	4538
	D198SD1	2,500	
	G17BS1	338	
	HOPG3	200	
Crisil Ltd.	D132LT1	14	263
	FX100424	249	

The details of the loan/overdraft facilities availed from the aforesaid institutions as on January 22, 2018 is as follows:

Table No. 10

Name of the Institution	Amount in INR (crore)
Loan outstanding with EFL	6.22
ICICI overdraft	14.64
Canara Overdraft	0.84
Total	**21.70**

One must note that the securities lying with the stock broker are held by the stock broker in a fiduciary capacity. The stock broker has to credit the securities to the demat account of its clients if the securities are fully paid. Even for some reason, if the securities of the client are lying with the stock broker, the stock broker under law has been prohibited to use it for its own purpose, which in the instant case has been noticed to have been practiced on numerous occasions by F6 Finserve by pledging the securities belonging to its clients to the lenders F6 Finserve, 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 F6 Finserve is not the actual beneficial holder of the securities that has been pledged with the lenders. The acts of the *Noticee No. 1* of dealing with the shares of its clients in a deceitful manner by which it has intentionally, being fully aware of the consequences, has pledged the shares of its clients lying in its custody to avail loan / overdraft facilities and thereby has acted in severe detriment to interest of its clients. Considering the material on record and absence of any evidence suggesting anything contrary to the allegations, I am of the firm view that F6 Finserve has not only defrauded its clients but has also engaged in acts which have severe adversarial ramifications on the business of lending in the financial sector by genuine Lenders. Consequently, I am constrained to hold that the above act of F6 Finserve has led to the violation of Sections 12A (a), (b) and (c) of the SEBI Act and Regulations 3(a), (b), (c) and (d) of PFUTP Regulations.

21.6. Non-redressal of investor grievance

It would be appropriate to reproduce the applicable provisions:

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

Conditions of registration.

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

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

SEBI circular no. CIR/MRD/ICC/30/2013 dated September 26, 2013 deals with Investor Grievance Redressal Mechanism

It is noted that as on December 4, 2018, a total of 419 investors complaints were pending against F6 Finserve. Upon perusal of a sample of complaints, it is observed that the complaints largely pertain to non-settlement of accounts and mis-utilisation of funds by F6 Finserve. As per information received from the Exchanges, the number of claims along with the value of claim received against F6 Finserve as on December 4, 2018 were as under:

Table No. 11

Exchange	No. of claims	Value of Claim in INR (crore)
NSE	324	41.92
BSE	95	1.41
Total	419	43.33

From the above, I note that 419 investors complaints of value of approximately INR 43 crore were pending with F6 Finserve. In this connection, I note that speedy and effective redressal of grievances is an important hallmark for the healthy and steady development of the securities market. If investors do not get the replies or their dues from the stock broker on time or do not get their shares demated expeditiously, it leads to frustration and they may be discouraged to invest any more in the scrip of the company or even in other shares. This may, therefore, adversely affect the growth of capital market. Hence the importance of complaint redressal cannot be undermined and its sanctity has to be maintained by all the

intermediaries/market participants. In the instant matter, as per available records, the default to redress investors' grievances in question had continued unabated for a considerable period of time, well beyond the time period of one month prescribed under the applicable regulations and circular. This is a blatant violation of law and I find that F6 Finserve by taking no effective steps towards their redressal has violated the provision of SEBI circular no. CIR/MRD/ICC/30/2013 dated September 26, 2013 and Regulation 9 (e) of SEBI (Stock Brokers and Sub- Brokers) Regulations, 1992.

21.7. Failure to furnish information to SEBI inspection team

The applicable regulation is as follows:

SEBI (Stock Brokers and Sub- 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.

It is noted from the materials made available on record that F6 Finserve has failed to provide complete information/data to the inspection team sought from it at the time of inspection. Further, I note that SEBI in order to solicit cooperation from F6 Finserve, had post inspection held two rounds of meeting with F6 Finserve on September 26, 2017 and January 18, 2018 and had advised F6 Finserve to submit all the data/ information sought from it. Several emails (October25, 2017, October 27, 2017, November 28, 2017 and January 19, 2018) and letters (January 25, 2018 and January 29, 2018) were also addressed to F6 Finserve reminding it to submit the requisite data. However, F6 Finserve failed to submit any data / information as sought by the inspecting team. Moreover, F6 Finserve also has failed to submit its response to the observations made during the inspection which were communicated to F6 Finserve, vide letter dated February 2, 2018. Furthermore, I also note that F6 Finserve has also failed to cooperate and submit its response to the queries raised by NSE.

It is pertinent to note that SEBI as a statutory body has been constituted to *inter alia,* promote orderly and healthy growth of securities market apart from protecting investors' interest. For discharging this onerous job, and with a view to achieving the underlined object, SEBI as a regulator is required to conduct inspection/investigation and enquiries into the affairs of various registered intermediaries from time to time. It must be remembered that the purpose of carrying out inspection is not punitive and the object is to ensure compliance by a registered intermediary with the provisions of the Act, Rules, regulations, by-laws and circulars issued from time to time which are meant to regulate the securities market and are applicable to the said intermediary. For this purpose, first and the foremost requirement is active co-operation from the concerned officials of the intermediaries where inspection is being carried out. They are duty bound to not only 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 but to furnish all the data and information, as and when called upon or sought from it. The act of withholding of information and non-cooperation with the Regulator, shall amount to a hindrance in the way of conducting smooth inspection / investigation and enquiry by the Regulator to arrive at a just and fair

conclusion as per the provisions of law. Thus, I find that F6 Finserve by not cooperating with the inspecting team and by not furnishing the data and information sought from it by SEBI, has committed a serious breach of regulations of SEBI which can have severe repercussions in the market. The aforesaid non-cooperation exhibited by F6 Finserve cannot be taken lightly as it has prevented SEBI from performing its statutory duties enjoined upon it under SEBI Act and therefore, it is held that F6 Finserve has violated regulation 21 of SEBI (Stock Brokers and Sub- Brokers) Regulations, 1992.

22. The findings of the inspection as narrated in the SCN with respect to F6 Commodities are as follows:

22.1. It was observed that F6 Finserve and F6 Commodities are connected with each other. The basis of their *inter-se* connection rests on the following acts:

22.1.1. They share the same registered office as per the MCA records.

22.1.2. As noted from the MCA website, Mr. Pankaj Goel is the present Director (at the time of inspection) of both F6 Finserve and F6 Commodities. Ms. Meenu Goel is a present Director (at the time of inspection) of F6 Commodities and was a Director of F6 Finserve from December 24, 2013 to January 1, 2018.

22.1.3. Mr. Pankaj Goel and Ms. Meenu Goel are the Promoters of F6 Finserve and F6 Commodities and together hold 100% shareholding thereof.

22.1.4. There were huge fund transfers between F6 Finserve and F6 Commodities. During the period April 1, 2016- March 31, 2018, the net transfer from F6 Commodities to F6 Finserve was approximately INR 5.51 crore.

22.2. On a scrutiny of bank statement of F6 Finserve, it is noted that F6 Finserve had transferred INR 1.04 crore to F6 Commodities. This was done at the time when F6 Finserve was not found to be repaying funds due to its clients. It has already been held in the preceding paragraphs that F6 Finserve has misutilised its clients' funds for its own need / purpose. Further, it has also been noted that F6 Finserve was wrongly reporting its margin collection in its proprietary account to the Exchange and has pledged its clients' securities to avail overdraft facility from financial institutions and was further transferring its clients' funds

to its Promoter – Director. All the aforesaid factors aptly demonstrate that the financial health of F6 Finserve was unsound. Given the aforesaid circumstances, the transfer of a significant amount of INR 1.04 crore to one of F6 Finserve's connected entity i.e., to F6 Commodities, on a preponderance of probability basis, can be said to be diversion of funds which were due to be refunded to its credit balance clients. The above findings find strength from the fact that the *Noticee No. 1* was not enjoying sufficient financial health and was found to be using securities and funds belonging to its clients, for its own proprietary use. Moreover, considering the deliberate decision taken by *Noticee No. 1* and *2* to remain silent to the findings and allegations made against them in the SCN, further leads credence to the allegations levelled against *Noticee No. 2*. Thus, given the fact that F6 Finserve and F6 Commodities have common Promoter – Directors, apart from having the same registered office and as the persons who were in control of F6 Commodities were also part of the Board of F6 Finserve in the capacity of its Promoter - Director, the aforesaid transfer of funds by F6 Finserve to F6 Commodities at a time when F6 Finserve needed the funds to repay its clients, cannot be said to be a fortuitous act but was deliberately done pursuant to a design, wherein both the *Noticees* were aware that F6 Finserve was prohibited under the law to transfer funds belonging to its clients to its connected entity, F6 Commodities. Thus, F6 Commodities has visibly aided and abetted F6 Finserve in misutilising its clients' funds. To put it differently, but for F6 Commodities, F6 Finserve could not have diverted INR 1.04 crore belonging to its clients. Therefore, it is held that F6 Commodities has violated clauses A (1) and A (5) of code of conduct of SEBI (Stock Brokers and Sub brokers) Regulations, 1992 read with circular no. SMD/SED/CIR/93/23321 dated November 18, 1993. While the text of the SEBI circular dated November 18, 1993 has been reproduced in preceding paragraph, the text of clauses A (1) and A (5) of code of conduct of SEBI (Stock Brokers and Sub brokers) Regulations, 1992 are as follows:

SEBI (Stock Brokers and Sub brokers) Regulations, 1992

Code of Conduct for Stock Brokers

A. General.

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

…

(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

22.3. It is also noted from records that F6 Commodities had not redressed 47 investors grievances with a total claim value of INR 48.62 lakh. I have already alluded to the importance of expeditious redressal of grievances of investors in the preceding paragraphs. In the instant matter, the records reflect that F6 Commodities has failed to redress the complaints of various investors in time. Hence, the said act of F6 Commodities cannot be viewed lightly and it has to be held that F6 Commodities has violated the provision of SEBI circular no. CIR/MRD/ICC/30/2013 dated September 26, 2013 and regulation 9 (e) of SEBI (Stock Brokers and Sub- Brokers) Regulations, 1992.

23. To sum it up, I observe that the information and data gathered at the time of inspection unequivocally bring to light the various flagrant lapses noticed from the way both F6 Finserve and F6 Commodities were operating their broking operations and managing their clients' funds and securities. Further, the violations committed by F6 Finserve and F6 Commodities are undoubtedly grave in nature which have been carried out for a considerable period of time (almost 2 years). Now, the next issue that arises for determination is whether *Noticees No. 3* to *10* who were part of the Board of F6 Finserve and F6 Commodities (only *Noticees No. 3* and *4*) were responsible for the violations of applicable provisions of securities law, as alleged in the SCN.

24. It is noted from records that following were the Directors of F6 Finserve and F6 Commodities at the relevant points of time:

Table No. 12

Sr. No.	Name	Designation	Change in designation, if any	Tenure
F6 Finserve				
1.	Pankaj Goel	Director	-	26/12/2012 – till date
2.	Meenu Goel			
3.	Sanjay Anand	Additional Director	Appointed as Non - Executive Director on 3/4/2017.	10/2/2015 – 1/1/2018
4.	Kavita Anand			
5.	Praveen Sharma			4/4/2016 – 2/1/2018
6.	Asha Sharma			
7.	Deepak Goel			27/1/2005 – 1/1/2018
8.	Ruchika Goel			24/10/2016 – 1/1/2018
F6 Commodities				
1.	Pankaj Goel	Director	26/12/2012 – till date	
2.	Meenu Goel			

25. I note that *Noticees No. 3* to *10* have been attributed to be liable for the deeds of F6 Finserve and *Noticees No. 3* and *4* alone for the deeds of F6 Commodities. I have also recorded above that *Noticees No. 3, 4, 9* and *10* have neither disputed any fact nor any other specific plea has been taken by the said *Noticees* with any supporting evidence for refuting the allegation to escape the liability of the violation committed in the name of F6 Finserve and F6 Commodities. It is observed that all the acts which are executed in the name of incorporated entity, are done by the natural persons who by their own minds and wisdom, are controlling the affairs and management of such artificial juristic person (company) in the capacity of its Directors. The company, being an artificial entity, cannot function on its own volition and will move only in such direction, as may be desired and dictated by the Directors who are controlling the overall functioning of the company. I note that the position of a 'Director' in a

company comes along with various onerous responsibilities and compliances under law that are associated with such position, which have to be adhered to by such Director and in case of default, he / she has to face the consequences thereof. The Directors of a company are persons appointed to manage and direct the affairs of the company. They are expected to diligently perform their duties with honesty, fairness, skill and care in administering the affairs of the company. Such a duty requires the Directors to devote adequate time and attention to the affairs of the company so as to be able to take decisions that do not expose the company to unnecessary risks / actions by enforcement agencies. This implies a high degree of accountability and knowledge of the overall functioning of the company. Therefore, the Director cannot wriggle out from his / her liability arising out of any wrongdoing by the company.

26. With respect to *Noticees No. 3, 4, 9* and *10,* I note that the said *Noticees,* in the absence of any submissions made by them, have not made out a case that even though they were the Directors of F6 Finserve, they were not managing and directing the affairs of F6 Finserve or that their responsibility as a Director was such that it did not involve overseeing the day to day functioning of F6 Finserve. As noted from table no. 12 above, *Noticees No. 3, 4, 9* and *10* have been associated with F6 Finserve in the capacity of its Directors for a considerable period of time which at the very least would have made them familiar with the overall functioning of F6 Finserve as they were part of the management of F6 Finserve. No contrary evidence has been brought on record to show otherwise. Additionally, no material has been made available on record which would show that the aforesaid *Noticees* have carried out their duty in administering the affairs of the company as the Director of F6 Finserve, diligently with honesty, fairness, skill and care. In the absence of the aforesaid, I am constrained to find that *Noticees No. 3, 4, 9* and *10* have abdicated all their responsibility and duty as a Director of F6 Finserve which is not permissible under law. Here, it will be relevant to quote the order of Hon'ble Supreme Court of India in the matter of *N. Narayanan* vs. *Adjudicating Officer, SEBI* (2013) 12 SCC 152, wherein it was held that:

"33. Company though a legal entity cannot act by itself, it can act only through its Directors. They are expected to exercise their power on behalf of the company with utmost care, skill and diligence. This Court while describing what is the duty of a Director of a company held in Official Liquidator v. P.A. Tendolkar (1973) 1 SCC 602 that a

Director may be shown to be placed and to have been so closely and so long associated personally with the management of the company that he will be deemed to be not merely cognizant of but liable for fraud in the conduct of business of the company even though no specific act of dishonesty is provide against him personally. He cannot shut his eyes to what must be obvious to everyone who examines the affairs of the company even superficially."

27. In view of the aforesaid, it is held that *Noticees No. 3, 4, 9* and *10* are liable for the violations of securities laws that have been committed by F6 Finserve during their tenure.

28. *Noticees No. 5* to *8* have contended that they were not involved in any decision taken by the management pertaining to running the operations of F6 Finserve and it was primarily managed and controlled by *Noticee No. 3*. It has further been submitted that they did not derive any material benefit and have also not attended any of the Board meetings of F6 Finserve. Moreover, they have claimed that they are themselves victims of criminal breach of trust, cheating and fraud committed by *Noticee No. 3* as they have ended up becoming associated with F6 Finserve because of lending money to the *Noticee No. 3*, who happened to be known to the family for years. Having heard the submissions and documents submitted in support thereof, I note that there exist a set of peculiar facts in this case which point towards the existence of a common pattern. The first being, *Noticees No. 5* and *6* had to become the Directors of F6 Finserve subsequent to giving loans to F6 Finserve as well as to *Noticee No. 3,* followed by the failure of F6 Finserve and *Noticee No. 3* to repay the said loan amount to them (*Noticees No. 5* and *6*). Similarly, *Noticees No. 7* and *8* also became the Directors of F6 Finserve subsequent to giving loans to F6 Finserve and to *Noticee No. 3,* followed by the failure of the latter *Noticees* to repay the said loan amount to *Noticees No. 7* and *8*. Thus, their association with F6 Finserve was not because they had the experience or expertise in stock broking activities but because of the loan extended by them to F6 Finserve and to the *Noticee No. 3* on account of old association and family ties. Secondly, *Noticees No. 5* to *8* have filed FIRs against *Noticees No. 3, 4* and officials of Kotak Mahindra Bank Ltd. for the irregularities related to mortgaging of their personal properties. Thirdly, *Noticees No. 5* to *8* would not have been in the position in which they are currently, if they were not approached by *Noticee No. 3* for the

financial help. Thus, it cannot be a coincidence that two sets of *Noticees* who have nothing in common, are placed exactly the same situation today, because of the loans extended by them to F6 Finserve and to *Noticee No. 3* out of personal / family ties. It has also been emphatically submitted by the *Noticee No. 6* that he being employed with Merchant Navy used to travel during a substantial part of a year outside the country, hence he could not have been in a position to be a part of management of F6 Finserve. It was under this situation that signatures of *Noticee No. 6* were obtained on certain white papers under *bona fide* faith and believe, however, the *Noticee No.3* has misused those signatures without consent of *Noticee No. 6* or his concurrence and knowledge. In the process, their sole residential property also got mortgaged with Bank about which the above *Noticees* got to know much later, once the *Noticee No. 3* committed default. Finally, *Noticees No. 5* to *8* by responding to the SCN have tried hard to explain the circumstances under which they had become the Directors in F6 Finserve. On the other hand, the Promoter - Directors of F6 Finserve i.e., *Noticees No. 3* and *4* who allegedly put *Noticees No. 5* to *8* in such difficult situation, are absconding, casting further doubt on their integrity. The aforesaid circumstances, on a preponderance of probability basis compel me to believe that though *Noticees No. 5* to *8* were Additional Directors and / or Non- Executive Directors of F6 Finserve, their association with F6 Finserve and *Noticee No. 3* was more as a creditor rather than as Additional Directors and / or Non- Executive Directors of F6 Finserve. This impression finds further credence from the facts stated above that *Noticee No. 6* is a Merchant Navy officer whose work entails him to be away from the day to day functioning of F6 Finserve and even *Noticee No. 5* has had no expertise or experience to work in any capacity in a stock broker firm. Moreover, filing of FIR against *Noticee No. 3* by *Noticees No. 5* to *8,* auctioning off of their property by Kotak Mahindra Bank Ltd. and declaration of proclaimed offender against *Noticee No. 3* by the Ld. Court of Sh. Girraj Singh, JMFC, Gurugram Courts, further provide strength to the submission of *Noticees No. 5* to *8* that they became Additional Directors and / or Non- Executive Directors of F6 Finserve only when *Noticee No. 3* failed to pay back the debt that he owed to them and had instead offered them directorship in the company in-lieu of non-payment of loan. Thus, in the given facts and circumstances of the matter where it is not in dispute that loan was extended by *Noticees No. 5* to *8* to F6 Finserve and to

Noticee No. 3, absence of any Board Meeting minutes evidencing that *Noticees No. 5* to *8* have attended any of the Board Meetings of F6 Finserve and lack on any official papers which bears the signature of *Noticees No. 5* to *8* as Directors of the said *Company* coupled with the fact that *Noticees No. 3* and *4* were the Promoter – Directors holding majority shareholding in F6 Finserve, I am of the view that considering the materials available on record and the factual evidence made available to me that are peculiar to the matter, the aforesaid four *Noticees* deserve a benefit of doubt and discharge from the instant proceedings sans any further direction as based on evidence, since based on the available materials, it is difficult to hold them liable for the violation of securities laws that have been committed by F6 Finserve.

29. In view of the aforesaid discussion, I note that *Noticees No. 3* and *4* have failed to act with due and reasonable care, skill and diligence while conducting the affairs / operations of F6 Finserve and hence are liable for the violations committed by F6 Finserve. Further, *Noticees No. 3* and *4* who were part of the Board of F6 Commodities as Directors are responsible for the conduct of business of F6 Commodities and hence, are liable for the violations committed by F6 Commodities.

30. After finding F6 Finserve, F6 Commodities and *Noticees No. 3* and *4* guilty of contravening various provisions of SEBI Act, regulations and circulars, the next step would be to evaluate what directions, if any, should be issued against them which would be commensurate with the violations committed by them. I note that a stock broker being a vital securities market intermediary, is strictly prohibited from indulging in any act detrimental to the investors' interest or which leads to interference with the fair and smooth functioning of the market. A stock broker is required to maintain high standards of integrity, promptitude and fairness in the conduct of his business dealings, and shall have to ensure that its interests is not in conflict with its clients. In the given facts situation, F6 Finserve has not only failed to fulfil its duty towards its clients, be it redressing their grievances or settling the funds due to its clients but has gone to the extent of misutilising its clients' funds and securities, thereby also interfering and compromising with the risk management system put in place by the Exchanges (wrong reporting of margin collected from clients and in its proprietary account). The gravity of lapses and contraventions of the statutory provisions committed by F6 Finserve and F6 Commodities, as alluded at

length in preceding paragraphs, can also be gauged from the fact that F6 Finserve has been expelled from both the Exchanges since April 2018 by declaring it as a defaulter while F6 Commodities has been declared defaulter from the three Commodities Exchanges, viz., from MCX (with effect from May 18, 2018), NCDEX (declared defaulter on May 24, 2018) and NMCE (suspended with effect from March 16, 2018). As a regulator of the capital markets, SEBI has the duty to safeguard the interest of investors and protect the integrity of the securities market. Since the conduct of F6 Finserve, F6 Commodities and *Noticees No. 3* and *4*, is not in the interest of investors in the securities market, appropriate directions need to be issued against them, else it may lead to loss of investors' trust in the securities market.

Directions

31. In view of the foregoing, I, in exercise of the powers conferred upon me under Sections 11(1), 11(4), and 11B (1) read with Section 19 of the Securities and Exchange Board of India Act, 1992, pass the following directions:

31.1. *Noticees No. 1* to *4, 9* and *10* are hereby restrained from accessing the securities market in any manner and are also prohibited from buying, selling or otherwise dealing in the securities market, directly or indirectly in any manner whatsoever manner, for the period a period of 5 years.

31.2. The directions issued under paragraph 27 of the *Interim Order* so far as it relates to *Noticees No. 5* to *8,* shall stand vacated. Further, *Noticees No. 5* to *8* are cautioned and directed to be careful before associating themselves as a Director in any intermediary of the securities market.

31.3. *Noticees No. 3, 4, 9* and *10* are hereby restrained from holding post of Director, any managerial position or associating themselves in any capacity with any listed public company and any public company which intends to raise money from the public, or any securities market intermediary registered with SEBI for a period of 5 years.

31.4. *Noticees No. 1, 3, 4, 9* and *10* shall, jointly and severally, be liable to repay / refund the investors / clients' money with an interest of 15 % per annum from the date when the repayment became due till the date of actual repayment, under the supervision of NSE. Similarly, *Noticees No. 2* to *4* shall, jointly and severally,

be liable to repay / refund the investors / clients' money with an interest of 15 % per annum from the date when the repayment became due till the date of actual repayment, under the supervision of MCX.

31.5. *Noticees No. 1, 3, 4, 9* and *10* shall, jointly and severally, be liable to return the securities due to the clients / investors of F6 Finserve or their monetary value as on the date of actual payment of money in lieu of shares, under the supervision of NSE. Similarly, *Noticees No. 2* to *4* shall, jointly and severally, be liable to return the securities due to the clients / investors of F6 Commodities or their monetary value as on the date of actual payment of money in lieu of securities, under the supervision of MCX.

31.6. *Noticees No. 1* to *4, 9* and *10* shall not dispose of or alienate any of their assets, whether movable or immovable (including funds in their bank accounts), or create any interest or charge in any such assets, till such time the refunds / repayments as directed at 31.4 and 31.5 above are completed.

31.7. The Banks are directed to ensure that no debits are made in the bank accounts held jointly or severally by *Noticees No. 1* to *4, 9* and *10*, except for the purpose of payment of money to the clients/investors under the written confirmation of the concerned stock exchange(s).

31.8. The modalities of selling the assets, depositing the proceeds thereof in the Escrow Account(s) opened in accordance with the directions contained in paragraph 27 (a) to (d) of the *Confirmatory Order*, and disbursing the amounts to the clients / investors after verifying the claims shall be worked out by NSE and MCX by their mutual co-ordination. NSE and MCX shall have a lien on the remaining amount, if any, lying in the Escrow Account(s), after satisfying the claims of the investors/clients. The lien shall be up to the extent of total money disbursed by the Exchanges out of their IPF accounts to the clients/investors of F6 Finserve and F6 Commodities.

31.9. NSE and MCX shall deal with the claims of their clients / investors in accordance with their respective bye-laws and procedures, after adjusting the disbursements made through the Defaulters' Committee mechanism.

31.10. NSE for *Noticees No. 1, 3, 4, 9* and *10* and MCX for *Noticees No. 2* to *4* shall proceed with the recovery of funds and securities from the assets of respective *Noticees* to cover any shortfall in funds and securities in the Escrow Accounts(s) and Demat Account, opened pursuant to the directions in the Confirmatory Order.

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

33. A copy of this order shall be forwarded to the *Noticees,* all the recognized Stock Exchanges, Banks, Depositories and Registrar and Transfer Agents for ensuring compliance with the above directions.

-Sd/-

DATE: JUNE 09, 2022
PLACE: MUMBAI

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