

## SECURITIES AND EXCHANGE BOARD OF INDIA

**EX PARTE AD- INTERIM ORDER**

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

**IN RE NON-COMPLIANCES AND VIOLATIONS OF PROVISIONS OF STOCK BROKERS REGULATIONS AND OTHER CIRCULARS.**

**IN RESPECT OF**

<b>S. No.</b>	<b>Entity's name</b>	<b>PAN</b>
1.	CPR CAPITAL SERVICES LTD.	AAACC3235A
2.	MR. PAWAN KUMAR GARG	AAPPG1517R
3.	MR. ANUJ GARG	AHEPG5644F
4.	MR. DINESH KUMAR	ABKPK0853A
5.	C H P FINANCE PVT LTD.	AABCC5031H
6.	IFL PROMOTERS LTD.	AAACI5322C
7.	CPR COMMODITIES SERVICES PVT. LTD.	AACCP5984B
8.	MS. SHASHI GARG	AIGPG7786F
9.	MR. VIJAY PAL SINGH	AKSPS2600N
10.	MS. ANITA MANN	AGPPM5665E

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1. CPR Capital Services Limited (hereinafter referred as 'CPR/ 'Broker'/Trading Member) having its registered office at 6, *Basement, Convenience Shopping Centre Valley View Estate, Gurgaon- Faridabad Road Gwal Pahari Haryana- 122003* is registered with Securities and Exchange Board of India ("SEBI") in following categories:
- As a stock broker of equity segment of National Stock Exchange of India Ltd. ("NSE") (Registration number: INB230876935),
  - As a stock broker in equity derivative segment of NSE (Registration number: INF230876935).
  - As a stock broker in Currency Derivative Segment of NSE (Registration number: INE230876935).
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- d) As a stock broker in equity segment of Bombay Stock Exchange Ltd. ("BSE") (Registration number: INB010876937).
- e) As a stock broker in equity derivative segment of BSE (Registration number: INF010876937).
- f) As a stock broker in Currency Derivative Segment of BSE (Registration number INE010876937).
- g) As a stock broker in equity segment of Metropolitan Stock Exchange of India Ltd. ("MSEI") (Registration number: INB260876934).
- h) As a stock broker in equity derivative segment of MSEI (Registration number: INF260876934).
- i) As a stock broker in currency derivative segment of MSEI (Registration number: INE260876935).
- i) As a Depository Participant of Central Depository Services Ltd. ("CDSL") (Registration number: IN-DP-CDSL- 472-2008).

2. The summary of directorship of CPR and the respective tenure of the directors is as under:

<b>S. No</b>	<b>Entity Name</b>	<b>Tenure of the Directors</b>
<b>1</b>	<b>Present Directors</b>	
a.	Pawan Kumar Garg	26/05/1995- till date
b.	Anuj Garg	01/04/2006- till date
c.	Dinesh Kumar	28/09/1999- till date
<b>2</b>	<b>Past Directors</b>	
a.	Shashi Garg	15/12/1999-01/04/2016
b.	Vijay Pal Singh	19/01/2015-01/10/2015
c.	Anita Mann	01/01/2007- 01/10/2015

3. The shareholders of CPR as disclosed for FY 2016-17 are as under:

<b>Sr. No.</b>	<b>Name</b>	<b>% of shares held</b>
<b>1</b>	<b>Pawan Kumar Garg</b>	<b>24.90</b>
<b>2</b>	<b>Shashi garg</b>	<b>17.04</b>
<b>3</b>	<b>P K Garg (HUF)</b>	<b>10.08</b>
4	Advance India Shares & Securities (P) Ltd	8.21
5	Lajwanti Devi	4.68
6	Dinesh Kumar	4.35
7	Rajender Kumar Garg	3.43

8	Parul Garg	3.40
9	Anshu Garg	3.26
10	Reeta Gupta	1.875
11	Meenakshi Gupta	1.77
12	R K Garg HUF	1.67
13	Mukesh Gupta	1.60
14	Vipin Gupta	1.54
15	Anuj Garg	1.42
16	I D Garg (HUF) Karta I D Garg	1.20
17	Others	8.21
<b>Total</b>		<b>100%</b>

4. NSE, pursuant to market intelligence pertaining to CPR, carried out an inspection of CPR in October 2015 for the period April 01, 2014 to August 31, 2015 hereinafter referred to as the “*first inspection*”). Vide letter dated March 29, 2016, NSE forwarded its observations made during the limited purpose inspection of CPR to SEBI. In view of the serious violations as observed by NSE, a comprehensive inspection of CPR was carried out by SEBI. The said inspection was carried out in December, 2016 for the period April 01, 2015 to December 05, 2016. Subsequently, another inspection of CPR was carried out by NSE in March, 2017 (hereinafter referred to as the “*second inspection*”), findings of which were communicated to SEBI vide email dated August 09, 2017 wherein several non-compliances/ violations were observed. The period of the second inspection was March 01, 2016 to February 28, 2017.
5. Vide letter dated March 29, 2016 and email dated August 09, 2017, NSE, *inter alia*, communicated the following observations against CPR including the findings of the aforesaid inspections:

**a. Mis-utilization of client securities**

During the *first inspection*, it was observed that CPR as on August 31, 2015 had mis-utilized client’ securities amounting to Rs.26.18 crores through CPR’s director (Mr. Anuj Garg) and its group companies namely, CHP Finance Pvt. Ltd. (“CHP”), IFL Promoters Ltd. (“IFL”) and CPR Commodities Services Pvt. Ltd (“CPR Commodities”) by pledging clients’ securities for margin and/ or to raise funds.

As communicated by NSE, based on stock reconciliation between stocks as per register of securities (ROS) and holding statement of beneficiary accounts of CPR (as on February 22, 2016), It was observed that out of total securities amounting to Rs.

70.39 Crore (as per ROS), securities amounting to Rs. 57.07 Cr were available with CPR in its beneficiary accounts. Out of the said securities available with CPR, securities amounting to Rs. 18.51 Cr. had been pledged by it directly with NBFCs/banks.

During the *second inspection*, it was observed that client securities worth Rs. 118 crore (consolidated value of securities each time they were moved to member's group companies or were sold by these group companies during the period 01-04-2016 to 28-02-2017) had been moved to the broker's group companies (CHP and IFL) or sold by these group companies during the entire inspection period 01-04-2016 to 28-02-2017 without holding/owning those shares.

As on February 28, 2017, the amount of securities of clients of CPR received by CHP and IFL off-market from CPR / sold by CHP and IFL without possessing the same was Rs. 4.13 Cr. The table below shows the relevant details:

	<b>No. of scrip having negative balance</b>	<b>Value of negative stock</b>
CHP	349	Rs. 2.77 Cr.
IFL	34	Rs. 1.36 Cr.
Total	383	Rs. 4.13 Cr.

#### **b. Non-availability of clients securities**

During the *first inspection*, it was observed that difference between quantity of securities available in ROS and holding statement of beneficiary accounts of CPR amounted to Rs. 36.31 Cr. as on August 31, 2015. Out of the said securities, securities amounting to Rs.10.13 cores belonged to CPR and its group companies. The balance securities worth Rs. 26.18 crore belonging to clients were not available with the broker.

During the *second inspection* it was observed that difference between quantities of securities available in ROS and holding statement of beneficiary accounts amounted to Rs. 2.81 Cr. as on February 28, 2017.

#### **c. Funds raised by pledging client's securities were not used for respective clients' obligation.**

During the *first inspection* it was observed that CPR had pledged client securities in excess of their obligation in 144 instances, amounting to Rs. 10.81 Cr.

During *second inspection* it was observed that the broker had pledged client securities in excess of obligation on 402 instances, amounting to Rs. 6.26 cr. Further, as submitted by the broker, out of the aforementioned 402 instances, unexplained pledging to the tune of Rs. 3.28 crore pertained to 11 group companies/accounts (as submitted by the broker). However, the balance pertained to other clients.

#### **d. Non Segregation between Client and Own Beneficiary Account**

During both the inspections, it was observed that CPR had used client beneficiary account for holding own and client securities. It was further observed that CPR had its own beneficiary account but it was not using it.

#### **e. Non-Segregation between own and client bank account**

During both the inspections, it was observed that funds had been transferred from client bank account to CPR's own bank account and vice-versa.

During the first inspection it was observed that a total of Rs. 0.19 cr. was transferred by CPR from client account to own account and Rs.1.04 cr. was reversed in inspection period. Net funds transferred from Own to client bank account during Inspection period were Rs. 0.85 cr.

During the second inspection, it was observed that CPR had made transactions from client bank account to own bank account and vice-versa. Net funds transferred from Own to client Bank accounts during Inspection period amounted to Rs 2.55 Cr. (Client to Own Bank A/C - Rs. 1.98 Cr. & Own to Client Bank A/C - Rs. 4.55 Cr.).

#### **f. Use of client bank account for purpose other than specified**

During both the inspections, it was observed that funds were transferred from client bank account to group companies and vice versa.

During *first* inspection, it was observed that Rs. 3.32 Cr. were transferred from client account to group companies (namely, Advance India Securities, Advance India Shares and Securities Private Ltd., C H P Finance Pvt Ltd., CPR Commodities Services Private Limited and IFL Promoters Limited) and Rs. 7.37 Cr. were transferred from group companies to client account during the inspection period. (Net funds transferred from group companies to client bank account were Rs. 4.05 Cr.)

During the second inspection, it was observed that the broker had received Rs 509.59 Cr and paid Rs 509.52 Cr from/to CPR Commodities during the inspection period. Net funds received from CPR Commodities was Rs. 0.07Cr. CPR Commodities was a registered client of CPR but it did not trade during the inspection period.

**g. Actual settlement of client fund and securities not done**

During the *first* inspection it was observed that actual settlement of funds and securities of clients on a quarterly basis was not done in case of 131 sample clients.

During *second* inspection, it was observed that CPR had not done actual settlement of funds and securities of clients on a quarterly basis on 21 instances pertaining to 12 regular sample clients. Further, settlement was not done in case of 639 clients who had not traded since last 3 months and their funds and securities amounting to Rs 8.74 Cr. were lying with CPR as on February 28, 2017.

**h. Funding to clients**

During the *first* inspection it was observed that CPR had provided exposure to 10 clients in spite of debit balance in their ledgers, amounting to Rs. 2.25 cr.

During the *second* inspection, it was observed that CPR has provided exposure to two clients (out of 25 sample instances) in spite of debit balances in their ledgers, amounting to Rs. 6.13 Cr.

**i. Obligation of one client met from other client's securities**

During the second inspection it was observed that obligation of 2 clients was met from the securities of the other clients. Total value of securities sold by these clients without actually having securities was Rs. 3.02 cr.

**j. Cash Dealings**

During the second inspection, it was observed that CPR had received/accepted cash on 7 instances amounting to Rs. 0.74 Cr. and was not able to identify the party from whom it received such cash.

6. Vide email dated February 14, 2017, NSE informed SEBI that based on violations observed during the first inspection, Disciplinary Action Committee (“DAC”) of the Exchange levied a monetary penalty of Rs 12.6 Lacs on CPR in addition to suspension for 5 trading days from February 27, 2017 to March 03, 2017.
7. As noted earlier, an inspection of CPR was also carried out by SEBI for the period April 01, 2015 to December 05, 2016 (“the inspection period”). The said inspection was carried out on December 05, 08, 09, 13 and 16, 2016 at the office of CPR. The observations of the inspection carried out by SEBI, submissions of CPR in response to the inspection findings and the observations of SEBI thereupon are, *inter alia*, as under:

a. **Nomenclature of client bank accounts**

- i) The front page of bank account statements on a sample basis was checked to confirm if nomenclature of client accounts was as per the SEBI circular. It was observed that the word ‘*Client A/C*’ was not mentioned in the nomenclature of *eight* client bank accounts maintained by CPR.
- ii) Pursuant to communication of inspection findings, CPR vide its reply dated November 27, 2017 (received by SEBI on January 04, 2018) stated that the said accounts are old client bank accounts and that the word ‘*Client A/c*’ is mentioned in all the new bank accounts. CPR further submitted that it is now applying to banks for inserting the word client account where the same is not mentioned. *However, no evidence was provided by CPR in support of its claim.*

b. **Non-segregation of client’s funds and securities:**

- i) On perusal of policies and procedures for segregation of proprietary and client funds and securities submitted by CPR, it was observed that no segregation was maintained by CPR between own and client funds and securities since its own securities were kept in Client Beneficiary account along with client securities. Further, its own funds were also kept in client bank account along with the funds of clients.
- ii) CPR’s own securities were kept in the Client Beneficiary account no. 1205870000000016 along with client securities. For pay-in/ pay-out in case of own trades, securities were transferred from/to the Client Beneficiary account

to/from the pool accounts (NSE: 1205870000000020 or BSE 1205870000000054).

- iii) With reference to funds, CPR's own funds were kept in client bank accounts and pay-in/ pay-out for own trades is made from/ to client bank accounts. The main client bank accounts of CPR are Indusind NSE A/c no. 200999458367, Indusind BSE A/c no. 200999458381 and Indusind CDS A/c no. 200999458404.
- iv) Subsequent to communication of inspection findings, CPR submitted that theoretically own and client funds and securities should be segregated and that it has maintained separate bank and demat accounts. However, it is not practically possible for a company of its size to segregate own and client funds and securities on a day to day basis and it has not expended its resources on clerical work. CPR further submitted that it stopped proprietary trading due to rules, regulations and compliances.

c. **Mis-utilization of client's securities:**

- i) The securities details of 5 days with highest net sale (based on value of sale) on proprietary/own account during each of the years in the inspection period (F.Y. 2015-16 & FY 2016-17) was sought from CPR. Certain sample securities out of the securities that were sold on these days were checked to see whether the securities are delivered for settlement (pay-in of the securities) from CPR's proprietary/own beneficiary demat account (1205870000003251) or not.
- ii) In all instances taken up for examination, it was observed that pay-in of own shares was made from Client Ben A/c (1205870000000016) and shares were transferred for pay-in from Client Beneficiary A/c to pool account. It was further observed that in majority of instances examined, shares were first received from A/c no. 1205870000009967, which is the account of CHP, a sister concern of CPR, into the Client Ben A/c of CPR and thereafter, were transferred to pool account.
- iii) Analysis of the selected scrips in the demat statement of Client Beneficiary A/c no. 1205870000000016 revealed that in most cases, shares purchased from the market by various clients were transferred by CPR to the account of CHP on the same day. Thereafter, the same were received back from CHP for the purpose of pay-in and transferred to pool account. In some cases, shares were also observed to be transferred (and received back at the time of pay-in) to the



account of IFL Promoters Ltd. (hereinafter referred to as IFL), another sister concern of CPR.

- iv) Since numerous instances of transfer of shares to the account of CHP were observed from the Client Beneficiary account, certain entries were selected at random and details of client codes in which such purchase/ sale had been done were sought from NSE. It was observed that on various occasions, shares purchased by clients had been transferred to the account of CHP from the Client Beneficiary account of CPR. Details of such transfer of shares (on a sample basis) are depicted in the table below:

Settlement No.	Date of trade	Scrip	Buy Client Code	Net Purchase Qty	Qty received in client Ben A/c no. 120587000 0000016)	Date of receipt	Qty transferred to A/c of CHP (A/c no. 12058700000 09967)	Date of Transfer
2016 009	13-Jan-16	Bank of India	N907	100	740*	15-Jan-16	740*	15-Jan-16
2017 017	24-Jan-17	Goa Carbon Ltd.	C182	400	400	27-Jan-17	400	27-Jan-17
2017 027	08-Feb-17	SAIL	S26	100	100	10-Feb-17	100	10-Feb-17
2017 062	31-Mar-17	Goa Carbon Ltd.	A702	1150	1150	05-Apr-17	1150	05-Apr-17
2017 062	31-Mar-17	GOL Offshore Ltd.	K672	1000	1000	05-Apr-17	1005	05-Apr-17
* Includes 640 shares purchased by CHP Finance Ltd.								

- v) From the above table, it is evident that client shares were transferred by CPR to the account of CHP. This *prima facie* shows mis-utilization of client securities by CPR.
- vi) During inspection, the broker admitted that CHP and IFL Promoters are related parties of CPR. It further stated that funds had been raised from these related parties, and for this purpose, shares had been given as collateral. Such shares belong both to clients and PRO (proprietary a/c).

- vii) In response to findings of inspection, CPR only submitted that the shares were transferred for collateral purpose in order to raise funds from CHP. Further, to maintain collateral, it transferred securities to CHP and securities were taken back from CHP for exchange pay-in. However, no other justification or evidence was provided by CPR in support of its reply.

**d. Pledging securities of clients having credit/ NIL Balances**

- i) CPR informed during Inspection that it has availed *Loan Against Securities* facility (LAS) from financial institutions namely, Aditya Birla Finance Ltd., ECL Finance Ltd., Canara Bank and Windpipe Finvest Pvt. Ltd.
- ii) During Inspection, the date, on which highest LAS was availed, was selected for each year and CPR was advised to provide the following details:
- Total value of shares pledged and amount availed.
  - Client-wise details of securities pledged
  - Financial Ledger balance of such clients
- iii) CPR submitted only partial data to the inspection team. Based on analysis of the same, observations in respect of each date are as below:

Date	Total Amount Raised	No. of clients whose securities were pledged (A)	Out of (A), no. of clients with credit balance/ NIL balance whose securities were pledged	Total value of Securities Pledged (B)	Out of (B), Value of pledged securities of clients with credit balance/ NIL balance
30-09-2015	116517310.60	233	76*	344773281.10	176065813.97
31-08-2016	122531455.18	246	132	424554994.84	347171362.53

*\*CPR provided ledger balances only in respect of 112 clients, out of which 76 had positive ledger balances. In respect of balance 121 clients, no ledger balances were provided.*

- iv) From the above analysis, it *prima facie* appears that CPR had raised funds by pledging securities of clients with NIL or credit balances.

- v) Further, in response to the findings of Inspection, CPR submitted that it checked the share pledging details and released some shares to those clients which had *nil* or positive balance in their client account and it would release the shares of remaining clients soon. CPR submitted that a list of clients whose shares had been released had been annexed to its reply. However, no such list was found along with the reply of CPR. Further, the other proof submitted regarding release of shares, as annexed by CPR, was found to be insufficient to support its claim.

e. **Non-Settlement of clients funds and securities**

- i) In response to the information sought on quarter-wise settlement compliance, CPR submitted quarter-wise number of active clients whose settlement was done and those clients whose settlement was not done during the quarter.

Quarterly settlement	Total number of active clients during inspection period	No of clients required to be settled	No. of clients settled	No. of clients unsettled	No of Clients having continuous credit balance more than Rs. 10,000/- for more than 90 days	Active clients who remain unsettled (in %)
April to June 2015	450	450	288	162	135	30%
July to Sep 2015	468	468	303	165	138	29%
Oct to Dec 2015	387	387	266	121	97	25%
Jan to March 2016	419	419	278	141	42	10%
April to June 2016	400	400	258	142	81	36%
July to Sep 2016	429	429	257	172	74	17%

- ii) From the table above, it is observed that in every quarter, around 120-165 clients' accounts were not settled by CPR. Further, among the unsettled clients, many of the clients were observed to have credit balance of more than Rs.10,000. For example, as on quarter ending June 2015 and September 2015, nearly 30% of the clients, having credit balance of more than Rs.10,000, were

not settled by CPR. The trend continued when again in the first quarter of 2016-17, around 36% of the clients, having credit balance of more than Rs.10,000, were not settled by CPR.

iii) During Inspection, CPR was advised to submit details of top 5 inactive clients (who have not traded for 6 months or more) as at the end of each quarter of 2015-16 and 2016-17, in terms of funds balance and securities balance. It was observed that CPR had not settled the funds of 21 inactive clients and securities of 10 inactive clients during the inspection period.

iv) Thus, CPR had not settled the accounts of active and inactive clients.

v) In response to the inspection findings, CPR submitted that it has settled the fund balances of 10 inactive clients and securities balance of 2 inactive clients. However, no submission for remaining inactive clients was received thereafter. Further, the proof (client demat ledger) submitted with respect to settlement of securities of 2 clients was found to be insufficient to substantiate the submission of CPR.

vi) In case of inactive clients in the absence of any trading and consequential obligations of the clients towards CPR, it should not have been retaining their funds and securities. By not settling inactive clients, CPR not only used the idle client funds/securities but also exposed such accounts to risks of fraud/unauthorized trading etc.

f. **Non-cooperation by CPR**

i) A meeting dated August 9, 2017 was held at SEBI-NRO with Mr. Pawan Garg, Director of CPR, wherein CPR was asked to submit certain information not later than August 14, 2017. The same was reiterated vide mail dated August 09, 2017. Since no submission was received from CPR, a reminder email dated August 22, 2017 was sent with an advice to submit the desired information latest by August 23, 2017. In response thereto, vide email dated August 24, 2017, CPR sought extension till September 15, 2017 in order to submit the said information, which was granted. Vide email dated September 11, 2017, CPR was again advised to ensure that its response reaches SEBI latest by September 15, 2017.

- ii) When no submission was made by CPR even till the extended date, vide email dated September 25, 2017 CPR was called for a meeting at SEBI-NRO. It however failed to appear for the aforesaid meeting. Thereafter, CPR was again advised to appear for a meeting at SEBI-NRO on September 27, 2017. In this regard, CPR neither appeared for the meeting nor sought any extension.
- iii) Thereafter, letter dated September 28, 2017 was sent to CPR providing it a final opportunity for making submissions in respect of details sought vide email dated August 09, 2017. In response thereto, vide email dated October 18, 2017 CPR again sought extension of two-three days. However, no submission in this regard was received.
- iv) The findings of inspection were communicated to the broker vide letter dated November 08, 2017. The same were also forwarded by email dated November 09, 2017. As no reply to the same was submitted by CPR, reminder letters dated November 24, 2017 and December 22, 2017 were sent to it. Finally, the comments of CPR on the inspection findings were received on January 04, 2018. However, no submission was made by the broker with respect to the information sought at the meeting held on August 09, 2017 and called for vide subsequent reminder emails.

#### **8. POST INSPECTION NON-COMPLIANCES INFORMED BY NSE:**

NSE informed that CPR did not provide reply to the observation sheet shared with it pursuant to the *second* inspection. Accordingly, Letter of Observation was issued to CPR on August 03, 2017 seeking its reply on or before August 14, 2017. Since no reply was received reminder mails/ letters were issued on August 16, 2017, August 21, 2017 and August 29, 2017. Vide email dated August 22, 2017, CPR sought extension till September 30, 2017 for submission of their reply.

Considering the seriousness of the observations against CPR, it was called for a meeting on September 20, 2017. However, it failed to attend the meeting. Subsequently, CPR was again called for a meeting on September 27, 2017. During the said meeting, it was asked to provide an undertaking for the following:

- Release of securities from Globe Fincap (entity with whom securities were pledged) by October 09, 2017
- Recouping the shortfall of securities
- Infusing the funds if net worth falls short

- Settle all the clients account by October 09, 2017
- Submission of data pertaining to Enhanced supervision by October 06, 2017

However, even after repeated reminders CPR neither provided undertaking nor complied with the required compliances. In view of the same, a show cause letter was issued by NSE to CPR on October 31, 2017. Vide letter dated November 10, 2017, CPR provided its reply to the same. However, the reply provided by CPR was not complete. In view of the same, the reply of CPR was placed before NSE's Internal Committee for Minor Actions (ICMA) for further action on the same.

Subsequently, the Disciplinary Action Committee (DAC) of NSE in its meeting held on January 12, 2018 decided that the trading member be expelled from membership of Exchange in all segments. Vide order dated February 08, 2018, CPR was expelled from membership of NSE in all segments w.e.f. March 05, 2018. BSE also expelled CPR from all segments w.e.f. March 06, 2018.

## **FAILURE TO RESOLVE THE COMPLAINTS**

9. CPR has also failed to resolve the complaints of its clients. The number of the complaints and the value of the claim pending against CPR as on July 04, 2018 is as under:

<b>Exchange</b>	<b>No. of complaints</b>	<b>Value of Claim</b>
NSE	112	Rs. 6.41 Cr.
BSE	61	Rs. 1.73 Cr.

## **NON-COMPLIANCES AND VIOLATIONS BY CPR**

10. In view of the observations of SEBI and NSE noted above, it *prima facie* appears that CPR committed the following violations: -
  - a. By omitting the words '*Client A/C*' in the nomenclature of the bank accounts (as noted above), CPR has not complied with SEBI circular No. SMD/SED/CIR/93/23321 dated November 18, 1993 and Clauses A(2) and A(5) of the Code of Conduct prescribed for stock brokers under the SEBI (Stock Brokers and Sub-brokers) Regulations.
  - b. CPR is in violation of SEBI circular No. SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 15 of Rights and Obligations document for Stock Broker,

Sub-brokers and Clients as prescribed by SEBI vide its circular dated August 22, 2011 on account of the following:

- Non-segregation of client funds and securities from own funds and securities.
  - Transferring client securities to its related entities (viz. CHP, IFL and CPR Commodities).
- c. By raising funds by pledging securities of clients having NIL or credit balances, the broker is in violation of SEBI Circulars no. MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008 and SMD/SED/CIR/93/23321 dated November 18, 1993, and Clauses A(1) and (5) of the Code of Conduct read with Regulation 9 (f) of the SEBI (Stock Brokers and Sub-brokers) Regulations .
- d. By not carrying out settlement of clients' funds and securities, CPR is in violation of Para 12 of Annexure A of the SEBI Circular No. MIRSD/SE/Cir-19/2009, dated December 03, 2009 and Clause 31 of Rights and Obligations document for Stock Brokers, Sub-Brokers and Clients as prescribed by SEBI vide its circular dated August 22, 2011.
- e. By not cooperating with the inspecting authority, CPR is in violation of provisions of Regulation 21 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.

#### *STATUS OF CPR CAPITAL SERVICES LIMITED AS A DEPOSITORY PARTICIPANT*

11. CDSL vide mail dated 09/08/2018 informed that the DP-CPR capital Services Limited (DPID 58700) has been terminated on March 31, 2018 in the CDSL system.
12. It is noted that Mr. Pawan Kumar Garg, Mr. Anuj Garg and Mr. Dinesh Kumar are the present directors of CPR. Ms. Shashi Garg ceased to be Director of CPR with effect from April 01, 2016. Mr. Vijay Pal Singh and Ms. Anita Mann ceased to be Directors of CPR with effect from October 01, 2015. However, all of them were acting as directors of CPR when the violations observed above were going on.
13. Any 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. In terms of section 179 of the Companies Act, 2013, the Board of Directors of a company shall be entitled to exercise all such powers and

do all such acts and things as the company is authorized to exercise and do. Therefore, the Board of Directors being responsible for the conduct of the business of a company are liable for any non-compliance of law and such liability shall be upon the individual directors also. Hon'ble Supreme 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 so 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 the business of a Company even though no specific act of dishonesty is proved against him personally. He cannot shut his eyes to what must be obvious to everyone who examines the affairs of the Company even superficially”.

#### **14. Relation between CPR, CHP, IFL and CPR Commodities**

- a. Upon perusal of MCA website, it is observed that one of the directors of CPR, Mr. Pawan Kumar Garg, is also a director of CHP.
- b. Further, two directors of CPR, viz. Mr. Pawan Kumar Garg and Mr. Anuj Garg, are also directors of CPR Commodities. Further, Mr. Pawan Kumar Garg, Ms. Shashi Garg, Mr. Anuj Garg and Mr. Dinesh Kumar together hold majority of the shares of CPR Commodities.
- c. As per the disclosures for FY 2016-17, CPR held 5.16 % shares of IFL Mr. Pawan Kumar Garg (present director of CPR) and Ms. Anita Mann (past director of CPR) also held shares in IFL.
- d. CPR admitted during inspection that CHP and IFL Promoters are related parties of CPR.
- e. In view of the above, CPR, CHP, IFL and CPR Commodities are *prima facie* connected to each other.

15. It was observed that CPR Commodities was a client of CPR but during the financial year 2016-2017, it did not carry out any transaction through CPR. However, as noted earlier, there were unexplained fund transfers between CPR and CPR Commodities during the said period. Further, it was observed that securities of other clients were transferred by CPR to CHP and IFL. It was also observed that CHP and IFL had sold securities through CPR without possessing the same. Since, CHP, IFL and CPR Commodities are *prima facie* related / connected to CPR, it can reasonably be inferred that they were aware of the wrongful nature of the transactions between them as noted in the earlier paragraphs. Thus, CHP, IFL and CPR Commodities had directly / indirectly aided and abetted CPR and its directors in mis-utilization of clients' funds /



securities, non-settlement of clients' funds / securities and non-segregation of clients' funds / securities.

16. A person acting as a securities market intermediary is expected to protect the interest of investors in the securities market in which he operates. Such a person is required to maintain high standards of integrity, promptitude and fairness in the conduct of his business dealings, and not be motivated purely by prospects of financial gain.
17. 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 CPR and its past/present directors is not in the interest of investors in the securities market, necessary action has to be taken against them immediately, else it may lead to loss of investors' trust in the securities market. I am also convinced that this is a case where effective and expeditious action is required to be taken to prevent any further harm to investors.
18. Pending detailed inquiry, in view of the liabilities of CPR, it is essential to take urgent steps to prevent CPR and its present / past directors not to alienate any assets, whether movable or immovable, or any interest or investment or charge in any of such assets, so that the final remedies, if any, do not become infructuous. Further, in order to maintain the *status quo*, pending detailed inquiry, I also find it appropriate that the holdings of the bank accounts of CPR are also required to be frozen.
19. In view of the above, I, in exercise of powers conferred upon me by virtue of section 19 read with sections 11(1), 11(4), 11B and 11D of the SEBI Act, 1992, Regulation 35 of Securities And Exchange Board of India (Intermediaries) Regulations, 2008, by way of this *ex parte ad- interim order*, hereby issue the following directions:
  - a. CPR Capital Services Ltd., Mr. Pawan Kumar Garg, Mr. Anuj Garg, Mr. Dinesh Kumar, CPR Commodities Services Pvt. Ltd., Ms. Shashi Garg, Mr. Vijay Pal Singh and Ms. Anita Mann are restrained from accessing the securities market and are further prohibited from buying, selling or otherwise dealing in securities, either directly or indirectly, or being associated with the securities market in any manner whatsoever, till further directions;
  - b. The aforesaid entities and persons shall cease and desist from undertaking any activity in the securities market, directly or indirectly, in any manner whatsoever till further directions;

- c. The aforesaid entities and persons are directed to provide a full inventory of all their assets, whether movable or immovable, or any interest or investment or charge in any of such assets, including details of all their bank accounts, demat accounts and mutual fund investments immediately but not later than 5 working days from the date of receipt of these directions.
  - d. The aforesaid entities and persons are directed not to dispose of or alienate any assets, whether movable or immovable, or any interest or investment or charge in any of such assets excluding money lying in bank accounts except with the prior permission of SEBI.
  - e. Till further directions in this regard, the assets of these entities shall be utilized only for the purpose of payment of money and/or delivery of securities, as the case may be, to the clients/investors under the supervision of the concerned stock exchange(s).
  - f. The depositories are directed to ensure that no debits are made in the demat accounts, held jointly or severally, of the aforesaid entities and persons except for the purpose mentioned in sub-para (e) after confirmation from the concerned stock exchange in this regard.
  - g. Registrar and Transfer Agents are also directed to ensure that the securities (including mutual fund units) in physical form, held jointly or severally, by the aforesaid entities and persons are not transferred/redeemed except for the purpose mentioned in sub-para (e) after confirmation from the concerned stock exchange in this regard.
  - h. The banks are directed to ensure that no debits are made in the bank accounts held jointly or severally by CPR Capital Services Ltd., except for the purpose of payment of money to the clients/investors under the written confirmation of the concerned stock exchange(s).
20. CHP Finance Pvt. Ltd. and IFL Promoters Ltd. are directed to deposit Rs. 2.77 crore and Rs. 1.36 crore, respectively (i.e. the amount of securities of clients of CPR received by them off-market from CPR / sold by CHP and IFL without possessing the same, as on February 28, 2017) in an interest bearing escrow account held with a nationalized bank, within 30 days from the date of receipt of this order. In the event, CHP Finance Pvt. Ltd. and IFL Promoters Ltd. fail to comply with the above directions,

they shall, from the 31<sup>st</sup> day of receipt of this order, be restrained from accessing the securities market and shall also be prohibited from buying, selling or otherwise dealing in securities, either directly or indirectly, or being associated with the securities market in any manner whatsoever, till further directions.

21. The above directions are without prejudice to the right of SEBI to take any other action that may be initiated in respect of aforesaid entities/persons.
22. The findings recorded in the order are based on the *prima facie* examination of facts and *prima facie* violation of law.
23. The entities/persons against whom this Order is being passed may file their objections, if any, within twenty one (21) days from the date of this Order and, if they so desire, may avail themselves of an opportunity of personal hearing before the Securities and Exchange Board of India at its Head Office at SEBI Bhavan, Plot No.C4-A, G Block, Bandra Kurla Complex, Bandra (East), Mumbai-400051 on a date and time to be fixed on a specific request in writing, to be received in this regard from the entities/persons.
24. This order shall come into force with immediate effect. A copy of this order shall be forwarded to all the Stock Exchanges, the relevant banks, Registrar and Transfer Agents and the Depositories to ensure that the directions given above are strictly complied with.

Sd/-

**DATE: September 25<sup>th</sup>, 2018**  
**PLACE: MUMBAI**

**MADHABI PURI BUCH**  
**WHOLE TIME MEMBER**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**